



HYDRO

Annual Report
2017



Annual Report

– 2017

HYDRO'S REPORTING 2017

The enclosed Financial statements and Board of Directors' report, together with the accompanying notes, fulfills Hydro's Norwegian statutory requirements for annual reporting. The remainder of the Annual Report includes additional information about Hydro's business, viability performance, financial and operating performance, shareholder information and corporate governance.

The "Annual report - 2017" is available in PDF-format on our website www.hydro.com/reporting2017 in English. The "Financial statements and Board of Directors' report - 2017" is also available in PDF-format as a separate document in both English and Norwegian. All parts of the reports can be downloaded and printed in PDF-format, together with additional, supplementary information. Paper copies of the reports can also be ordered on our website.

Throughout the report, Hydro refers to Norsk Hydro ASA and its consolidated subsidiaries if not otherwise stated.

BOARD OF DIRECTORS' REPORT p.13

Hydro's Board of Directors' report for 2017 prepared in accordance with the Norwegian Accounting Act. The sections Alternative Performance Measures, Country by country report, Norwegian code of practice for corporate governance and the UK Modern Slavery Act transparency statement are within the Board of Directors' responsibility, provided as appendices to the Board of Directors' report on page A1 in the back of this report

BUSINESS DESCRIPTION p.35

Detailed strategy and operating information are provided for each of Hydro's business areas including an overview of industry developments. Key regulatory and taxation information are also included.

VIABILITY PERFORMANCE p.79

The Hydro Way forms the basis for our viability reporting. The section describes our materiality analysis, policy, strategy and main results.

FINANCIAL AND OPERATING PERFORMANCE p.107

Financial and operating results are discussed per business area, as well as the market development and outlook. Additional factors impacting Hydro and financial income (expense) and income tax are discussed for the Hydro group. Pro forma information related to the acquisition of Sapa, as well as liquidity and capital resources are disclosed within this section. Information on items excluded from underlying EBIT is provided as part of the section Alternative Performance Measures in the back of the report (Appendices to the Board of Directors' report on page A1).

RISK REVIEW p.125

Hydro's major risks, with mitigating actions, are described in this section, including financial position, key financial exposures and legal proceedings.

SHAREHOLDER INFORMATION p.135

Shareholder information includes share price development, dividend policy, funding and credit rating policy, the Annual General Meeting and the financial calendar for 2018.

CORPORATE GOVERNANCE p.141

Hydro's corporate governance practice is described in relation to regulatory compliance, corporate directives and code of conduct and our governance bodies.

FINANCIAL STATEMENTS p.F1

Hydro's consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) are provided, together with the financial statements for the parent company Norsk Hydro ASA prepared in accordance with Norwegian accounting principles.

VIABILITY PERFORMANCE STATEMENTS p.V1

The environmental statements include key information about Hydro's environmental performance. The social statements include key information related to Hydro's workforce and interaction with the societies we are part of.

APPENDICES TO THE BOARD OF DIRECTORS' REPORT p.A1

Information that is part of the Board of Directors' formal responsibility and exceeding the information required directly in the Board of Directors' report.

ADDITIONAL INFORMATION p.B1

Terms and definitions.

Key figures

Amounts in NOK million unless other unit indicated	2017	2016	2015
Revenue	109 220	81 953	87 694
Underlying EBIT: ^a			
Bauxite & Alumina	3 704	1 227	2 421
Primary Metal	5 061	2 258	4 628
Metal Markets	544	510	379
Rolled Products	380	708	1 142
Extruded Solutions	284		
Energy	1 531	1 343	1 105
Other and eliminations	(289)	380	(19)
Total	11 215	6 425	9 656
Net Income	9 184	6 586	2 333
Underlying return on average capital employed (RoaCE), percent	9.6 %	5.1 %	9.2 %
Investments ^b	28 848	9 137	5 865
Total assets	163 327	130 793	122 544
Share price year-end, NOK	62.35	41.30	33.13
Dividend per share, NOK	1.75	1.25	1.00
Number of employees, year-end ^c	34 625	12 911	13 263
Recordable injuries, per million hours worked	2.9	2.6	3.0
Greenhouse gas emissions, million tonnes CO ₂ e ^d	8.2	8.2	7.9

^a**Underlying EBIT**

Extruded Solutions' financial results are fully consolidated from the closing date October 2, 2017. Sapa's financial results prior to the transaction are reported as a 50 percent owned joint venture included in Other and eliminations.

^c**Number of employees**

Includes the addition of Extruded Solutions and its 22,000 employees. Hydro now has most employees in the US followed by Brazil, Germany and Norway.

^b**Investments**

Mainly relates to Hydro's investment in the new Business area Extruded Solutions. Also includes the expansion and modernization of the red mud deposit area at Alunorte and new tailing dams at Paragominas, investments in the Karmøy technology pilot and a new production line in Grevenbroich for automotive body sheet.

^d**Greenhouse gas emissions**

Greenhouse gas emissions are recalculated for all presented years, including 100 percent of Extruded Solutions, reflecting current operations.

Highlights

8.2^{MT}
GHGe Emissions

2.9^{TRI}
Goal 2.4

34,625
employees

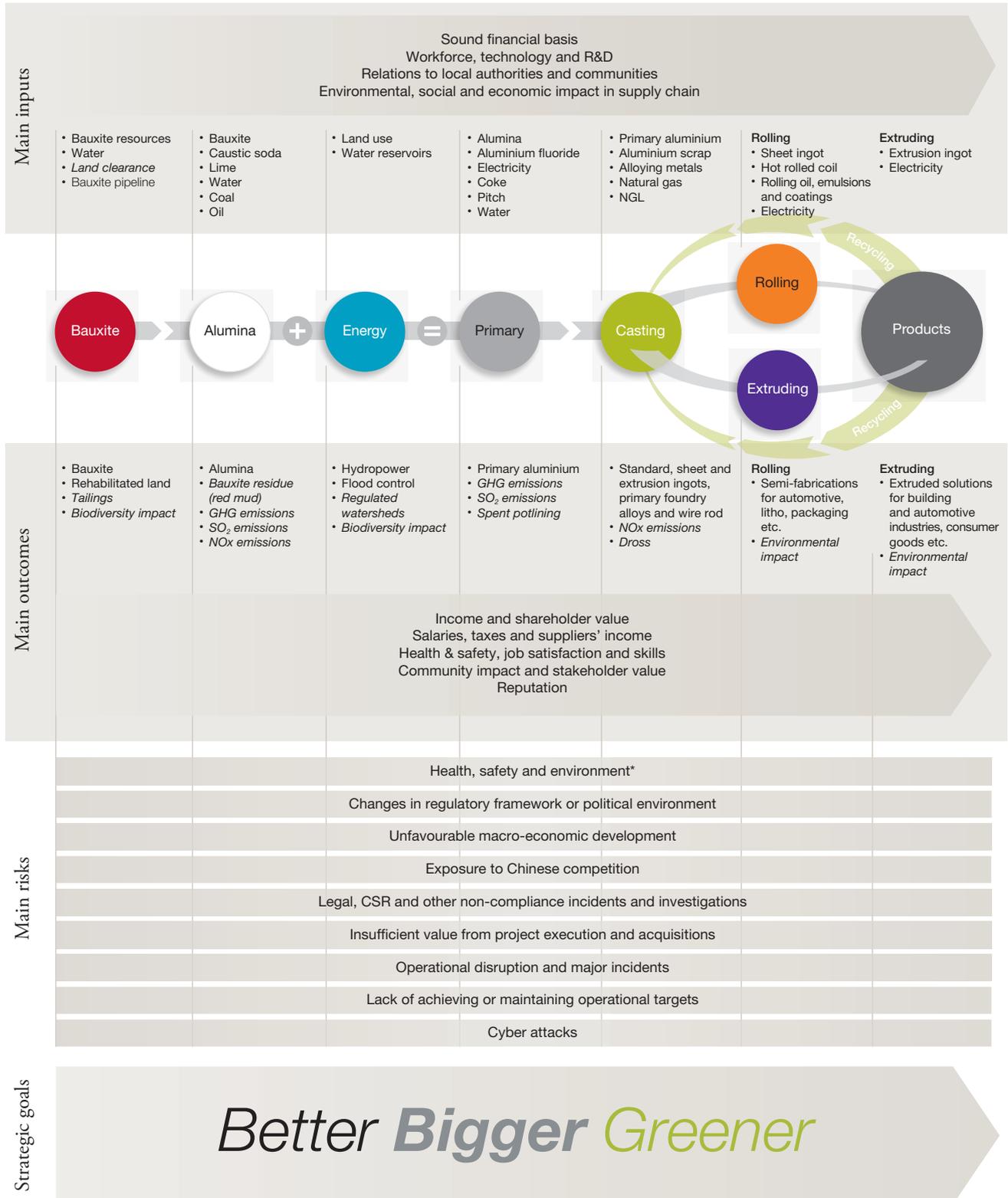
Revenue
NOK MILLION
109,220

2017 OPERATING RESULTS IMPACTED BY HIGHER REALIZED ALUMINA AND ALL-IN METAL PRICES

Underlying EBIT for 2017 increased to NOK 11,215 million from NOK 6,425 million for 2016. The increase reflects a higher all-in metal price and alumina sales price, partly offset by increased raw material costs, fixed costs and negative currency effects. Hydro's acquisition of Orkla's 50 percent ownership in Sapa was completed on October 2, 2017, giving Hydro full ownership of Sapa. Financial results for the new fully owned entity are presented in the new business area Extruded Solutions.

Bauxite production in Paragominas amounted to 11.4 million mt for the year while alumina production from Alunorte was 6.4 million mt. Primary aluminium production was about 2.1 million mt and we delivered 2.9 million mt of casthouse products and liquid metal to internal and external customers. Downstream, we shipped roughly 0.9 million mt of rolled products to the market. Our energy business produced around 10.8 TWh of hydroelectric power. The new Extruded Solutions business area delivered around 0.3 million mt in the fourth quarter.

Hydro's value chain



* Included as part of the relevant topics in the more extensive risk description (see further references below).
For a more extensive and precise overview of Hydro's main risks, see page 22 and 125.
Text in italics mainly reflects negative impacts.

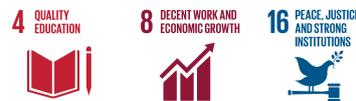
Hydro and the UN Sustainable development goals

The UN Sustainable development goals (SDGs) embrace a universal approach to the sustainable development agenda. They explicitly call on business to use creativity and innovation to address development challenges and recognize the need for governments to encourage sustainability reporting. Hydro has an impact on all of the 17 development goals, but some more than others. Of the 17, Hydro has chosen eight goals that are the most important to us, that will be highlighted throughout the report.

IMPROVING OUR FOOTPRINT



MAKING A POSITIVE DIFFERENCE



DRIVING INNOVATION



Hydro's mid-term strategic goals

	Ambitions	Target	Timeframe	2017 progress	Status
<i>Better</i>	Improve safety performance, strive for injury free environment	TRI ¹⁾ <2	2020	2.9 ²⁾	●
	Realize ongoing improvement efforts <i>Better</i>	BNOK 3.0	2019	1.8 BNOK	●
	Secure new competitive sourcing contracts in Norway post 2020	4-6 TWh	2020	2.65 TWh ³⁾	●
	Lift bauxite production at Paragominas	11.0 mill mt/year	2018	11.4 mill mt/yr	●
	Lift alumina production at Alunorte	7.0 mill mt/year	2021	6.4 mill mt/yr	●
	Shift alumina sales to PAX-based pricing	>85% PAX ⁴⁾	2020	~65% PAX ⁵⁾	●
	Extend technology lead with Karmøy technology pilot	Start production	2H 2017	First metal Jan 2018 ⁶⁾	●
<i>Bigger</i>	Realize technology-driven smelter capacity creep	200,000 mt/year	2025	32,000 mt	●
	Lift equity bauxite production	19 mill mt/year ⁷⁾	Long-term	NA	●
	Increase nominal automotive Body-in-White capacity	200,000 mt/year ⁸⁾	2017	Delayed ramp-up	●
	Complete ramp-up of UBC recycling line	>40 000 mt/year ⁸⁾	2017	Delayed ramp-up	●
<i>Greener</i>	Become carbon-neutral from a life-cycle perspective	Zero	2020	On track	●
	Increase recycling of post-consumer scrap	>250,000 mt/year	2020	148,000 mt/yr	●
	Deliver on reforestation ambition	1:1	Continuous	On track ⁹⁾	●

All targets and progress reflect Hydro excluding Extruded Solutions

- 1) TRI, total recordable injuries per million hours worked, includes own employees and contractors.
- 2) The safety development in 2017 included two fatalities. The figure includes own employees and contractors.
- 3) 1.65 Twh power sourcing in 2017.
- 4) Based on annual sourced volumes of 2.3 million mt.
- 5) Based on sourcing volumes of 2.5 million mt for 2017.
- 6) The Karmøy Technology Pilot is on track to ramp-up to full production during 1H 2018 as planned, but did not meet the target of first metal by year-end 2017.
- 7) Provided the acquisition of a 40% stake in MRN from Vale.
- 8) Refers to nominal capacity.
- 9) Target revised in 2017 to 1:1 rehabilitation of areas available for rehabilitation. From 2018 the target will also cover two hydrological seasons. The revised definition takes into account the nature of the mining cycle, and the time lag is necessary to ensure quality rehabilitation to restore biodiversity.

Green light: Ambition on track and on target; Amber light: Ambition behind plan, but on target; Red light: Ambition might not meet the target

Hydro in brief

Our Business

Hydro is a resource rich, fully integrated aluminium company with operations in all major activities along the aluminium industry's value chain. Our operations include one of the world's largest bauxite mines and the world's largest alumina refinery, both located in Brazil. We have primary metal production facilities in Europe, Canada, Australia, Brazil and Qatar. We are a leading worldwide supplier of value-added casthouse products, such as extrusion ingots, sheet ingots and foundry alloys. In 2017, we had metal product sales of 2.9 million mt to internal and external customers, from casthouses integrated with our primary smelters and from an extensive network of specialized remelt facilities close to customers in Europe and the US.

We are an industry leader as a supplier to a range of downstream markets in particular the packaging, lithographic, building, automotive and transport sectors. We deliver high-quality, energy-saving aluminium products and solutions, and have strong positions in markets that provide opportunities for good financial returns. In 2017, Hydro acquired Orkla's 50 percent interest in Sapa, securing full ownership of the global leader in extruded aluminium solutions.

With more than 100 years of experience in hydropower, Hydro is the second-largest operator of power production in Norway. We have substantial, self-generated power capacity to support our production of primary metal, and are engaged in a number of initiatives to secure competitive power supplies for our aluminium operations.

The Hydro Way

The Hydro Way is our approach to business, an approach that has existed within our company from the beginning and that has underpinned our success over the years. The Hydro

Way defines our identity - our distinct set of characteristics - and constitutes a unique way of doing things that differentiates us from other companies. It also describes how we run our business in terms of our mission, values, talents, operating model and strategic direction.

Employees

Hydro's organization is made up of about 35,000 employees involved in activities in more than 40 countries. The majority is employed in Brazil, Germany, Norway and the US. These employees represent great diversity, in terms of competence, gender, age and cultural background. We see this diversity as a significant resource, not least to encourage innovation. To be able to pull together as a team we depend on an efficient organization with common values and goals.

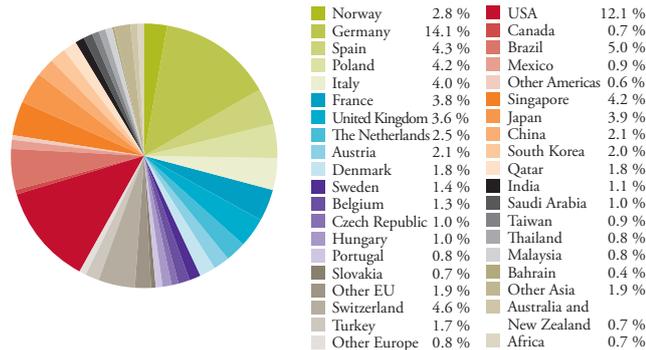
Key Developments

For the full year 2017 Hydro's underlying EBIT increased to NOK 11,215 million from NOK 6,425 million for 2016. The increase reflects a higher all-in metal price and alumina sales price, partly offset by increased raw material costs, fixed costs and negative currency effects.

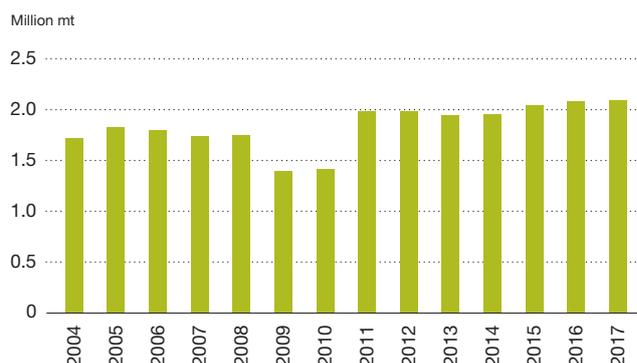
In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, led to regional flooding. Due to concerns over possible water contamination from Alunorte during this flooding, authorities have taken several measures against the alumina refinery. These include orders to reduce production by 50 percent and halt operations at its DRS2 bauxite residue deposit, which is currently under commissioning. In addition, suspending operations on one of two tailing dams at the Paragominas bauxite mine. Hydro issued a force majeure notice towards its alumina and alumina hydrate customers due to the production cuts and current lack of clarity into what measures it would take to return to normal operations.

Geographical distribution of operating revenues

NOK million 109,220



Primary aluminium production



Measures are being implemented to resolve the situation at Alunorte, including establishing an internal task-force to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

Regardless of the cause of contamination, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

Due to performance challenges in Rolled Products and slower than expected progress of improvements at Albras in Primary Metal, progress on Hydro's "Better" improvement program is behind plan. While Hydro did not reach the 2017 target of NOK 500 million, the delay is not expected to impact the revised 2019 target of NOK 3.0 billion.

In 2017, Hydro completed the acquisition of Sapa, establishing Hydro as the only aluminium company with a global presence that is fully integrated across the value chain and markets.

Global demand growth for primary aluminium in 2017 reflected positive macroeconomic developments. Global supply largely matched demand, resulting in a rather balanced situation. A largely balanced global market is expected to continue into 2018. Responding to continued economic stimulus, demand growth for primary metal in China reached high single digits. Production increases continued to exceed demand growth, resulting in a production surplus in China for 2017. Chinese primary production growth is expected to reduce in 2018, influenced by environmental and supply-side reforms resulting in cutbacks of illegal capacity. This is in line with directions given by the Chinese government in 2017, closely controlling capacity expansions.

Hydro's safety performance deteriorated in 2017, and we experienced two fatal accidents. The company's TRI¹⁾ rate increased from 2.6 in 2016 to 2.9 in 2017 and did not meet

the 2017 target of 2.4. The addition of Extruded Solutions from October 2, 2017, did not have a significant impact as they recorded similar accident rates for 2017.

Strategic Direction

As a resource-rich, global aluminium company, Hydro intends to continue to drive the performance and profitability of its operations while securing safe, sustainable business practices. Building on the momentum achieved in earlier years, Hydro will continue to deliver on the ambitious target of NOK 3.0 billion of additional annual improvements for the period 2016 through 2019, of which NOK 0.5 billion is expected to be delivered in 2018.

Given the current situation at Alunorte, a key priority going forward will be to finalize and follow up the internal and external reviews of the refinery and its water treatment system, as well as realizing the announced investment to the water treatment system at Alunorte, and return operations to normal in a safe manner. Regardless of the cause of contamination, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

Bauxite & Alumina will develop a technical concept for the replacement of part of our fuel oil consumption at the Alunorte alumina refinery to more climate and cost efficient natural gas. The 75,000 mt technology pilot at Karmøy has started production, utilizing Hydro's next-generation HAL4e technology, and is expected to contribute to reduced energy costs and lower greenhouse gas emissions. Hydro intends to improve margins through high-grading its product portfolio and differentiation through innovation, quality and reliability.

A successful integration of Extruded Solutions and its 22,000 employees into Hydro's operating model is a priority for 2018. This includes realization of integration synergies which have been confirmed at a level of NOK 200 million per year mainly within the remelting and recycling area. Further synergy potentials are being developed, including innovation, research and development.

Hydro will continue to follow its HSE roadmap: Improving leadership qualities, ensuring even better control over tasks and processes with inherent high risks, and increasing the engagement of operators.

1) Total recordable injuries per million hours worked

Engineering a lighter, brighter future

Among multiple highlights in 2017, the addition to the family was a defining moment. Although our renewed and extended organization embraced the new chapter of Hydro, and got off to a flying start of 2018, the Alunorte situation in Brazil shows us that we have lots of unfinished work to do also on the more basic level.

The Alunorte situation demands the best of us and will be a touchstone of our ability to put firm action behind our words and aspirations. Resolving the Alunorte situation in a way that meets our highest standards and satisfy our stakeholders, is also a precondition to maintain the momentum of the rest of Hydro.

Stronger together

With Extruded Solutions onboard, expanding our customer interfaces and sharpening our engineering spirit, Hydro's aluminium operations now range from mining to recycling, and every step in between, making Hydro *the* truly global 360° aluminium company.

Going forward together with 35,000 skillful and dedicated colleagues at 150 locations in 40 countries, is inspiring. As a complete aluminium family we can put our metal and material to good use in even more applications, light-weighting and energizing the world through smart solutions.

We are getting closer to the end-users. We are more often getting into the room with the product designers. We can learn from the agility of our new family members. And our innovators and entrepreneurs have a momentum to explore and take advantage of all the undiscovered opportunities in the space between extruded and rolled aluminium. I can't wait for it to result in some new and exciting shapes.

Green Shift

The advances, operationally, financially and technologically, convince me that *Better, Bigger and Greener* are not only great guidelines individually. Measures to support one of them may often also contribute to the progress of the others.

Take for instance the Karmøy Technology Pilot. Now we are ramping up cell after cell to finalize the plant aiming to set a new industry standard for low specific energy consumption and low specific greenhouse gas emissions. By implementing artificial intelligence as a tool to stabilizing and optimizing primary processes, we are turning Industry 4.0 from words

into action, taking a real step into the "Green Shift", adapting industrial processes to the requirements of the low-carbon economy.

In addition, ramping up the Automotive Line 3 in Grevenbroich, Germany, together with smart solutions and partnerships within Extruded Solutions, contributes to light-weighting the European car fleet.

Finalizing the ramp-up of the UBC Line (recycling of used beverage cans) in Germany, contributes to realizing the circular economy. Implementing the most advanced scrap sorting technology is both increasing recycling and reducing metal cost, as it enables us to dig deeper into the scrap pile.

It also enables us to offer the brand-new Hydro 75R product, guaranteeing at least 75 percent recycled content, all from post-consumer scrap. Similarly, we now offer the certified Hydro 4.0 product, with a carbon footprint of less than 4 kg CO₂ per kilo aluminium, counting every step from mining and energy to the casthouse, transportation included.

These initiatives, investments and measures are part of Hydro's *Better, Bigger, Greener* aspiration, and will contribute both to the climate and our financial bottom-line. They reflect our firm belief in aluminium as a metal, material and part of the solution – and that business targets and climate targets may very well go hand in hand.

The offer to acquire the Icelandic hydropower-based primary aluminium plant ISAL and the decision to upgrade and restart the second line at Husnes, will contribute commercially as well as to *Greener*, adding more hydropower-based primary aluminium to our portfolio.

Responsibility

By being a 360° aluminium company, fully integrated along the aluminium value-chain, Hydro is in a unique position to control every step of production, and be responsible – for the land, water and forests, for our employees and the

communities we engage with, for the energy use and emissions in our processes, and for bringing end products back into the loop to be used over again.

We have a lot going. At the same time, the situation emerging in February and March after the extreme rainfalls in the Barcarena region where our alumina refinery Alunorte is situated, illustrates very clearly that adapting to climate changes and having high ambitions for social responsibility, community dialogue and human rights are not issues that are resolved once and for ever. They are issues that demand ever more resolve, and it is crucial to always stay ahead in order not to be caught off guard by unforeseen incidents.

These days we are experiencing first-hand the validity of our own claim; that to expose oneself to a crisis is a far heavier burden on a company than to invest the necessary time, cost and efforts to make sure to do things right in advance.

At the time of writing this letter we still await the reports we have commissioned about what actually happened and recommendations for how to improve. But we have already established that we must strengthen our emergency preparedness for future extreme-weather. And I have apologized to the local community for not having been open and transparent enough, and for insufficient dialogue.

I truly believe that the learnings will expedite firm improvements in our way of performing social responsibility – because we want to, but also because we have to. We have not done enough to demonstrate that we are on the same side as the communities we are a part of, in order to contribute to sustainable growth and development to our mutual benefit. We should have been better prepared, as this

is incorporated in the history and culture of our company. Now is the time to show rather than tell.

Also regarding safety, we need to make additional efforts to improve performance, as we cannot accept that the positive trend over the years seem to flatten out and give us setbacks. Two fatalities in 2017 show that we must intensify not only our efforts but also our abilities – at the leadership levels as well as on the shop floor where high risk incidents may have fatal consequences.

As part of taking responsibility, and to contribute to sustainable development, Hydro is a signatory to the UN Global Compact and the Task force on Climate-related Financial Disclosure (TCFD), participates in the World Business Council for Sustainable Development and the International Council on Mining and Metals (ICMM), and is included on the Dow Jones Sustainability Indices, the UN Global Compact 100 and the FTSE4Good list.

Brighter

I would like to praise our 35,000 colleagues for their loyalty and determination, and thank them for their ability and willingness to perform extraordinarily when the situation demands it.

Global megatrends support the future of aluminium as metal and material and as a building block of modern societies. Our 360° value-chain and our innovative powers are enablers for us as a company to be a forerunner in our industry.

At the same time, our belief in continuous improvement proves more crucial than ever, in operations, of course, but most certainly within corporate social responsibility as well.

“Our belief in continuous improvement proves more crucial than ever – in operations, of course, but most certainly within corporate social responsibility as well”.



Svein Richard Brandtzæg
President & CEO



Board and Management

Board of Directors



Dag
Mejdell



Irene
Rummelhoff



Billy
Fredagsvik



Finn
Jepsen



Sten Roar
Martinsen



Thomas
Schulz



Liv Monica
Bargem Stubholt



Svein Kåre
Sund

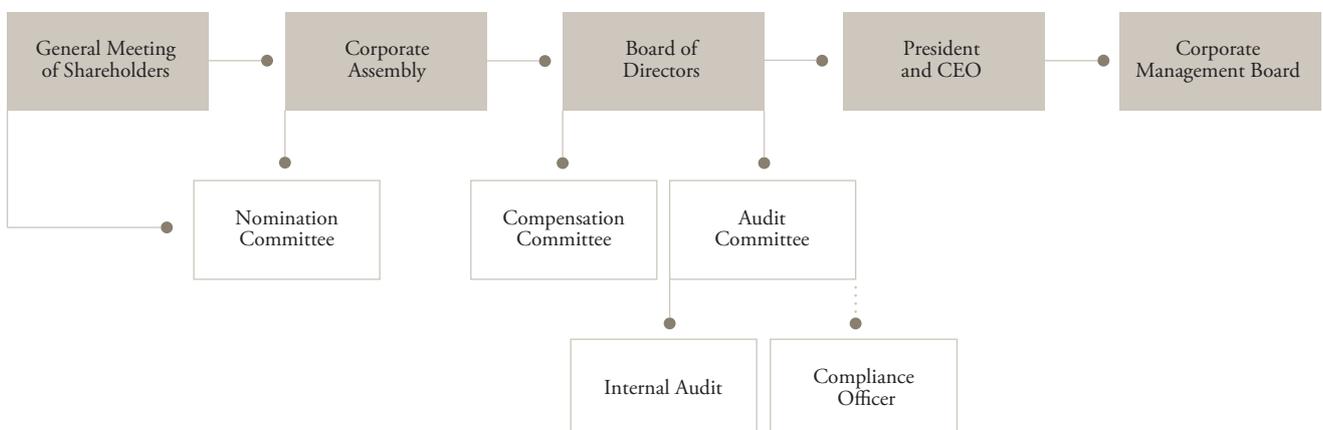


Marianne
Wiinholt



Tor Egil
Skulstad
(*observer*)

Governance bodies in Hydro



Corporate Management Board



Svein Richard
Brandtzæg
CEO & President



Kjetil
Ebbesberg



Egil
Hogna



Eivind
Kallevik



Anne-Lene
Midseim



Arvid
Moss



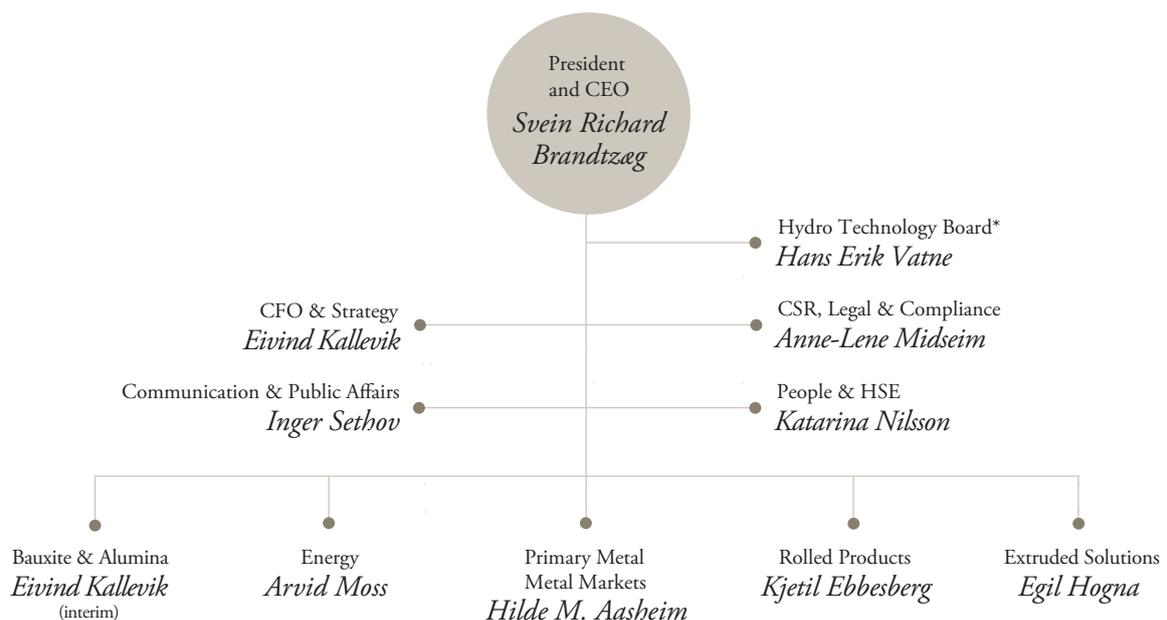
Katarina
Nilsson



Inger
Sethov



Hilde Merete
Aasheim



* Reports directly to President and CEO, but not as EVP and formal member of the CMB

Board of Directors' report

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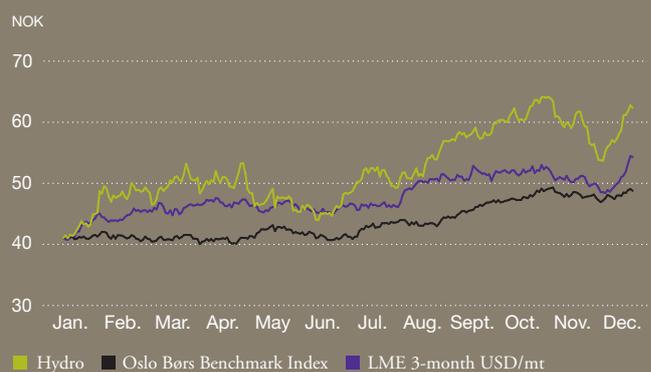
QUICK OVERVIEW

In 2017, Hydro completed the acquisition of Sapa, establishing Hydro as the only aluminium company with a global presence that is fully integrated across the value chain and markets. The acquisition re-enforces Hydro's strength in technology, R&D, innovation and product development, as well as a broad product and service offering to the benefit of more than 30,000 customers throughout the world. The fully integrated model provides Hydro with the capability and freedom to grow in the most attractive areas of aluminium, as well as further strengthening the sustainable solutions for the future low-carbon economy.

Hydro's improvement target has been lifted to NOK 3.0 billion from 2.9 billion by 2019. NOK 1.8 billion of improvements have been realized since 2015, with stronger-than-expected improvement results in the Bauxite & Alumina business area compensating for slower-than-expected progress in both Primary Metal and Rolled Products.

In February 2018, extreme rainfall in Pará, Brazil, led to regional flooding. Due to concerns over possible water contamination from Alunorte during this flooding, authorities have taken several measures against the alumina refinery. These include orders to reduce production by 50 percent and halt operations at its DRS2 bauxite residue deposit, which is currently under commissioning. In addition, suspending operations on one of two tailing dams at the Paragominas bauxite mine.

Share price development in 2017



NOTE:

References made to information that are not included in the Board of Directors' report are made for the convenience of the reader only.

Key developments and strategic direction

Maximizing value through integrated value chain

In 2017, Hydro completed the acquisition of Sapa, establishing Hydro as the only aluminium company with a global presence that is fully integrated across the value chain and markets. The acquisition enforces Hydro's strength in technology, R&D, innovation and product development, as well as a broad product and service offering to the benefit of more than 30,000 customers throughout the world. The integrated model provides Hydro with the capability and freedom to grow in the most attractive areas of aluminium, as well as strengthening the sustainable solutions for the future low-carbon economy.

Hydro made further progress towards the company's overall strategic direction *Better, Bigger, Greener*. Hydro continued to deliver significant operational and commercial results. The Hydro model allows the business areas to be run according to their specific business drivers and needs. Hydro believes this contributes to the ability to generate added value and to serve leading customers by ensuring operational excellence, driving improvements and extending our lead in technology and innovation.

Hydro's safety performance deteriorated in 2017, and we experienced two fatal accidents. The company's TRI¹⁾ rate increased from 2.6 in 2016 to 2.9 in 2017 and did not meet the 2017 target of 2.4. The development is concerning. The addition of Extruded Solutions from October 2, 2017, did not have a significant impact as they recorded similar accident rates for 2017.

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Regardless of the cause of contamination, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

For Bauxite & Alumina, 2017 was a year of operational progress and positive market development. The production levels at the Paragominas bauxite mine and Alunorte alumina refinery remained high. At Alunorte a new state-of-the-art dry disposal of bauxite residue using press filter commenced commissioning. While there were delays finalizing the installation, the ramp up process is planned to be completed during 2018.

A new area for mining residue at Paragominas commenced operations during 2017. The reforestation program at Paragominas is progressing according to plan, and renewed research partnerships have been established as a base for its mining rehabilitation. For the part-owned bauxite mine MRN, an important part of our bauxite sourcing strategy is developing a "*mine life extension*" in new mining areas which will contribute to securing long-term bauxite supply to Alunorte.

1) Total recordable injuries per million hours worked, includes employees and contractors

Primary Metal experienced strong operational and financial performance during 2017 and is utilizing technology and innovation to differentiate in the highly competitive environment of primary aluminium production. The 75,000 mt technology pilot at Karmøy started production in January 2018, marking the start of verifying the world's most climate- and energy-efficient smelter technology with considerable spin-off effects for Hydro's existing smelter portfolio. In December Hydro decided to upgrade and start up the second production line of our smelter at Husnes, Norway. Annual production of primary aluminium at Husnes will double to around 190,000 mt.

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

Recycling is an important element supporting Hydro's ambition to become carbon-neutral by 2020. The company aims to be a leading player in this growing market segment by pursuing commercial opportunities and reducing the environmental impact of its operations. Further increases in the capability and capacity to use post-consumer and other types of contaminated scrap are targeted together with increased sales of recycling-friendly alloys. Towards the end of 2017, Hydro launched two new certified sustainable billets. The 4.0 billet has a guaranteed maximum carbon footprint of 4kg CO₂/kg aluminium and is produced from hydropower based smelters. The 75R billet is produced in our remelters and has a guaranteed minimum post-consumer scrap content of 75 percent.

Rolled Products faced a very challenging year. Technical issues caused significant delays in the ramp up phase of both the new recycling line for used beverage cans (UBC) and the Automotive line 3 (AL3). These delays, together with performance issues at Alunorf and Hamburg, adversely affected Rolled Products' improvement ambition in 2017. However, the main performance issues at Alunorf and Hamburg have been resolved and operations are back to normal. The UBC line, after some design modifications that were completed in 2017, is now technically ready to reach targeted output. The AL3 is still in the product qualification

process, which will continue into second half of 2018. Production will ramp-up successively following successful qualification.

Extruded Solutions continued its strategy of increasing the share of value-added sales, and a simplification and collaboration drive for continued improvement. As a result, Extruded Solutions delivered a strong financial result for 2017. Hydro has agreed with Arconic to acquire its two extrusion plants in Brazil. The agreement will strengthen Hydro's downstream position in Brazil and create a solid platform for further growth. Extruded Solutions re-opened its manufacturing plant in Bedwas in the UK, to supply the growing automotive industry for lightweight body structure solutions. The first customer to be supplied from the refurbished facility will be London Electrical Vehicle Company (LEVC), which has developed a new zero-emissions-capable black taxi cab.

Securing long-term competitive power sourcing is of critical importance to sustain the viability of Hydro's smelter portfolio. In 2017, Hydro entered into a long-term power contract with Markbygden ETT AB for the annual supply of energy totaling 1.65 TWh for Hydro's Norwegian smelters for a 19-year period beginning 2021, enabling competitive aluminium production in Norway. This was in addition to an annual 1.0 TWh sourced in the previous year.

Global demand growth for primary aluminium in 2017 reflected positive macroeconomic developments. Global supply largely matched demand, resulting in a rather balanced market. A largely balanced global market is expected to continue into 2018. Responding to continued economic stimulus, demand growth for primary metal in China, reached high single digits. Production increases continued to exceed demand growth, resulting in a continued production surplus in China for 2017. Chinese primary production growth is expected to reduce in 2018, influenced by environmental and supply-side reforms resulting in cutbacks of illegal capacity. This is in line with directions given by the Chinese government in 2017 closely controlling capacity expansions.

On March 8 2018, President Trump signed a proclamation levying tariffs of 10 percent on aluminium imports to the US. Exemptions for certain countries are currently under discussion. The final framework is yet to be decided, and long-term effects are uncertain. In the short-term, Hydro does not expect any significant impact on its operations.

Creating value by becoming *Better, Bigger and Greener*

Hydro's strategic business approach aims to add value to our customers and society. This approach is reflected in Hydro's mid-term strategic goals reflecting the company's aspiration to become Better, Bigger, Greener.

Hydro will become *Better* by raising performance and improving our customer offering. This will be achieved by extending Hydro's leadership in advanced technology and product innovation, creating value through raw materials access, customer collaboration and our integrated model, and continuing to benchmark performance and ensuring attractive returns over the cycle.

To become *Bigger*, Hydro will aim to expand the use of aluminium and strengthen Hydro's platform for growth. This will be achieved by the promotion of Hydro and aluminium through value-adding products and solutions for our customers. We aim to be the preferred and trusted partner, and the most trusted voice of the aluminium industry. Hydro pursues selective growth from raw materials to products, solutions and recycling.

Hydro believes that sustainable business practices will make the company *Greener*, in addition to improve the company's ability to create shareholder value while making a positive difference wherever it operates. Hydro aims to advocate aluminium as a building block for the low-carbon circular economy, continue to reduce its environmental footprint

Hydro's mid-term strategic goals

	Ambitions	Target	Timeframe	2017 progress	Status
<i>Better</i>	Improve safety performance, strive for injury free environment	TRI ¹⁾ < 2	2020	2.9 ²⁾	●
	Realize ongoing improvement efforts <i>Better</i>	BNOK 3.0	2019	1.8 BNOK	●
	Secure new competitive sourcing contracts in Norway post 2020	4-6 TWh	2020	2.65 TWh ³⁾	●
	Lift bauxite production at Paragominas	11.0 mill mt/year	2018	11.4 mill mt/yr	●
	Lift alumina production at Alunorte	7.0 mill mt/year	2021	6.4 mill mt/yr	●
	Shift alumina sales to PAX-based pricing	>85% PAX ⁴⁾	2020	~65% PAX ⁵⁾	●
	Extend technology lead with Karmøy technology pilot	Start production	2H 2017	First metal Jan 2018 ⁶⁾	●
<i>Bigger</i>	Realize technology-driven smelter capacity creep	200,000 mt/year	2025	32,000 mt	●
	Lift equity bauxite production	19 mill mt/year ⁷⁾	Long-term	NA	●
	Increase automotive Body-in-White capacity	200,000 mt/year ⁸⁾	2017	Delayed ramp-up	●
	Complete ramp-up of UBC recycling line	>40 000 mt/year ⁸⁾	2017	Delayed ramp-up	●
<i>Greener</i>	Become carbon-neutral from a life-cycle perspective	Zero	2020	On track	●
	Increase recycling of post-consumer scrap	>250,000 mt/year	2020	148,000 mt/yr	●
	Deliver on reforestation ambition	1:1	Continuous	On track ⁹⁾	●

All targets and progress reflect Hydro excluding Extruded Solutions

- 1) TRI, total recordable injuries per million hours worked, includes own employees and contractors.
- 2) The safety development in 2017 included two fatalities.
- 3) 1.65 Twh power sourcing in 2017.
- 4) Based on annual sourced volumes of 2.3 million mt.
- 5) Based on sourcing volumes of 2.5 million mt for 2017.
- 6) The Karmøy Technology Pilot is on track to ramp-up to full production during 1H 2018 as planned, but did not meet the target of first metal by year-end 2017.
- 7) Provided the acquisition of a 40% stake in MRN from Vale.
- 8) Refers to nominal capacity.
- 9) Target revised in 2017 to 1:1 rehabilitation of areas available for rehabilitation. From 2018 the target will also cover two hydrological seasons. The revised definition takes into account the nature of the mining cycle. The time lag is necessary to ensure quality rehabilitation to restore biodiversity.

Green light: Ambition on track and on target; *Amber light:* Ambition behind plan, but on target; *Red light:* Ambition might not meet the target

from own production and solutions, and to make a positive difference by strengthening local communities and our business partners.

Strong position in an industry with growing demand

Growth in aluminium demand remains firm, despite volatile economic conditions, driven both by a general increase in consumption and the increasing substitution to aluminium from other materials. Aluminium products are important in all phases of economic development due to the diversified nature of applications such as capital investment in infrastructure and housing as well as consumer goods such as packaging, transportation, electrical and technical applications and household goods. Substitution effects are driving demand primarily in mature markets and in the transportation segment, while investments in infrastructure and construction as well as increasing urbanization and hence consumption are supporting demand growth in emerging economies.

Hydro has strong positions throughout the value chain and an attractive asset base. This includes competitive positions in bauxite and alumina, hydropower production, and our smelter portfolio, European leadership in rolling operations, strong position in recycling and a world leading position in extruded solutions. Following years of depressed earnings and unsatisfactory returns for the industry as a whole, continual improvement, restructuring efforts and positive currency developments have strengthened Hydro's position relative to its industry peers and improved the company's position to utilize opportunities as the global economy evolves. Based on its favorable carbon footprint, recycling efforts, and an integrated value chain, Hydro is in the position to offer to its customers solutions responding to demand for more sustainable products. In this area, Hydro may combine its renewable power sourcing, use-phase benefits of products, the recyclability of the metal, and its efforts in recycling into profitable product solutions.

Hydro's project portfolio includes the possibility for a new alumina refinery in Barcarena, close to Alunorte, a possible expansion of the Paragominas bauxite mine, and a possible expansion of primary production in Norway. Hydro is actively working on opportunities within recycling to expand the business and source more challenging scrap material. The restructuring of Hydro's Norwegian hydropower assets within the regulatory framework could create further opportunities in the Energy sector. Extruded Solutions will continue to consider investments and acquisitions to strengthen its position in specific segments or markets. Partnerships and joint ventures across the value chain provide the potential for further developing Hydro's asset portfolio. Investments in these projects are, among other factors, dependent on

ongoing developments in the balance between industry supply and market demand and cost competitive positions, including power supply.

Climate, health, safety, security and environment (HSE), corporate social responsibility (CSR), and complying with laws, regulations, and Hydro's steering documents, is fundamental to Hydro's way of working and are considered key elements of the company's license to operate. Hydro is on track to becoming carbon-neutral from a life-cycle perspective by 2020. Hydro has been involved at all stages in the multi-stakeholder development of the Aluminium Stewardship Initiative's (ASI) standards and is participating to develop ASI's supporting systems for a certification platform for responsible production, sourcing and stewardship of aluminium.

Priorities for 2018

Going forward, Hydro aims to strengthen performance, drive value creation and strengthen its relative industry position. Priorities in 2018 include:

- Strengthen performance within health, safety, security and environment (HSE), corporate social responsibility (CSR) and compliance
- Finalize and follow up Alunorte reviews, enhance community dialogue and provide humanitarian relief to affected communities, return to normal operations
- Ensure a successful integration of Extruded Solutions
- Strengthen relative industry position through improvement drive, digitalization and leading Research & Development
- Continue shifting portfolio towards high-margin segments for leading customers
- Maintain financial strength and flexibility, a predictable dividend level and provide attractive returns over the business cycle

In line with the HSE strategy and the 2020 targets, Hydro will continue to follow its HSE roadmap: Improving leadership qualities, ensuring better control over tasks and processes with inherent high risks, and increasing the engagement of operators. Two additional sub-strategies, on health and environment, are under development and will include Extruded Solutions in 2018. HSE is integrated in Hydro's existing business systems as well as in new projects and process modifications.

A revision of Hydro's board-sanctioned Code of Conduct and its integrity program handbook was delayed in 2017 due to the Sapa acquisition and will be updated in 2018. An external review of Hydro's compliance system was completed in 2017. The review concluded that Hydro's compliance system, as designed and implemented, appears robust and

addresses substantially all of the international benchmarks necessary for an adequate and effective anti-corruption compliance program.

The following prioritized areas for CSR, defined in 2017, will be further developed in 2018: To contribute to long-term societal development through quality education; decent work and economic growth; and promotion of peaceful and inclusive societies. An example of initiatives is the planned project for improved handling of municipal waste in Barcarena in Brazil. The project aims to improve the working conditions for those currently involved in waste collection as well as more secure waste handling in the community.

Given the current situation at Alunorte, a key priority going forward will be to finalize and follow up the internal and external reviews of the refinery and its water treatment system, as well as realizing the announced investment to the water treatment system at Alunorte, and return operations to normal in a safe manner. Regardless of the cause of contamination, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

A successful integration of Extruded Solutions and its 22,000 employees into Hydro's operating model is a priority for 2018. This includes realization of integration synergies which have been confirmed at a level of NOK 200 million per year mainly within the remelting and recycling area. Further synergy potentials are being developed, including innovation, research and development. Given Hydro's long value chain, spanning both upstream and downstream from bauxite extraction to products, solutions and recycling, the operating model offers a high degree of flexibility. This ensures that the business areas are able to be managed according to the specific business drivers and challenges of each area. In order to facilitate integration and enable the organization to prepare for the future, two new initiatives have been established during 2017. The first, New Chapter, aims to create a common platform and identity for Hydro's 35,000 employees, renewing the company's value platform the Hydro Way, its aspiration and strategic direction *Better, Bigger, Greener*, stakeholder positioning strategy and visual profile. The second initiative, Fit4Future, aims at step-change improvements to lift staff value creation and lower costs, divided into three main focus areas: strategic fit, differentiation and simplification.

During 2018, Hydro will continue with its improvement drive. Bauxite & Alumina will develop a technical concept for the replacement of part of our fuel oil consumption at the Alunorte alumina refinery to more climate and cost efficient natural gas. The 75,000 mt technology pilot at Karmøy has started production, utilizing Hydro's next-generation HAL4e technology, and is expected to contribute further to reducing energy costs and lowering greenhouse gas emissions. Hydro intends to improve margins through high-grading its product portfolio and differentiation through innovation, quality and reliability.

Hydro's digital strategy has a clear purpose: how to enable Hydro becoming *Better, Bigger and Greener*. Digitalization is not a goal in itself. Rather, we build digital solutions to improve our profitability, commercial edge, safety and CO2 footprint. Relevant examples of digitalization include smart robotics, analytics, visualization and machine learning, process automation and commercial solutions. Currently, all Business Areas and corporate functions are exploring the potential benefits of digitalization.

Hydro aims to provide its shareholders with competitive returns compared to alternative investments in peer companies by lifting the operating cash flow generation potential in all of its business areas. The company will continue to focus on securing its financial position through exercising strong capital discipline while maintaining a sustainable level of capital expenditures to safeguard its operating portfolio. Offering a predictable dividend level to shareholders and preserving Hydro's investment grade credit rating continue to be key priorities.

Investor information

Hydro's share price closed at NOK 62.4 at the end of 2017. The return ex. dividend for 2017 was positive with NOK 21.1, or 51 percent.

Hydro's Board of Directors proposes to pay a dividend of NOK 1.75 per share for 2017, for approval by the Annual General Meeting on May 7, 2018, reflecting Hydro's strong operational performance for 2017 and solid financial position. This is up from NOK 1.25 per share paid out for 2016, which is still to be considered a floor. The proposed payment represents a 41 percent pay-out ratio of reported net income for the year and demonstrates the company's commitment to provide a predictable cash return to shareholders, also taking into account the volatility in the aluminium industry.

Financial results

Underlying financial and operating results

Key financial information

NOK million, except per share data	Year 2017	Year 2016
Revenue	109 220	81 953
Earnings before financial items and tax (EBIT)	12 189	7 011
Items excluded from underlying EBIT ¹⁾	(974)	(586)
Underlying EBIT ¹⁾	11 215	6 425
<i>Underlying EBIT :</i>		
Bauxite & Alumina	3 704	1 227
Primary Metal	5 061	2 258
Metal Markets	544	510
Rolled Products	380	708
Extruded Solutions ²⁾	284	
Energy	1 531	1 343
Other and eliminations ²⁾	(289)	380
Underlying EBIT ¹⁾	11 215	6 425
Earnings before financial items, tax, depreciation and amortization (EBITDA) ³⁾	18 344	12 485
Underlying EBITDA ¹⁾	17 369	11 474
Net income (loss)	9 184	6 586
Underlying net income (loss) ¹⁾	8 396	3 875
Earnings per share	4.30	3.13
Underlying earnings per share ¹⁾	3.95	1.84
<i>Financial data:</i>		
Investments ¹⁾	28 848	9 137
Adjusted net cash (debt) ¹⁾	(17 968)	(5 598)
Underlying Return on average Capital Employed (RoaCE) ¹⁾	9.6%	5.1%

Key Operational information

	Year 2017	Year 2016
Bauxite production (kmt) ⁴⁾	11 435	11 132
Alumina production (kmt)	6 397	6 341
Primary aluminium production (kmt)	2 094	2 085
Realized aluminium price LME (USD/mt)	1 915	1 574
Realized aluminium price LME (NOK/mt)	15 888	13 193
Realized USD/NOK exchange rate	8.30	8.38
Rolled Products sales volumes to external market (kmt)	940	911
Extruded Solutions sales volumes to external market (kmt) ⁵⁾	845	682
Power production (GWh)	10 835	11 332

1) Alternative performance measures (APMs) are described on page A2 in the section Appendices to the Board of Directors' report.

2) Other and eliminations includes Hydro's 50 percent share of underlying net income from Sapa until end of third quarter 2017, while 100 percent of Extruded Solutions' underlying EBIT is disclosed separately as of fourth quarter 2017.

3) EBITDA per segment is specified in note 7 - Operating and geographic segment information in the consolidated financial statements.

4) Paragominas production, on wet basis.

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

For the full year 2017 Hydro's underlying EBIT increased to NOK 11,215 million from NOK 6,425 million for 2016. The increase reflects a higher all-in metal price and alumina sales price, partly offset by increased raw material costs, fixed costs and negative currency effects.

Due to performance challenges in Rolled Products and slower than expected progress of improvements at Albras in Primary Metal, progress on Hydro's *Better* improvement program is behind plan. While Hydro did not reach the 2017 target of NOK 500 million, the delay is not expected to impact the revised 2019 target of NOK 3.0 billion.

Hydro's acquisition of Orkla's 50 percent ownership in Sapa was completed on October 2, 2017, giving Hydro full ownership of Sapa. Financial results for the new fully owned entity are presented in the new business area Extruded Solutions. Sapa's results for the first nine months are reported as a 50 percent owned joint venture accounted for under the equity method within the Other and eliminations. See note 6 to the consolidated financial statements for additional information.

Hydro acquired the remaining shares in Sapa with a cash consideration of NOK 11.9 billion, and the transaction was financed with surplus cash and bond financing. Net cash provided by operating activities of NOK 14.3 billion was sufficient to cover net cash used in investing activities.

For 2017, Hydro's Board of Directors proposes a dividend of NOK 1.75 per share reflecting Hydro's strong operational performance for 2017 and solid financial position. This is up from NOK 1.25 per share paid out for 2016, which is still to be considered a floor. The proposed payment represents a 41 percent pay-out ratio of reported net income for the year and demonstrates the company's commitment to provide a competitive cash return to shareholders, also taking into account the volatility in the aluminium industry.

Reported results

For the full year 2017, reported earnings before financial items and tax amounted to NOK 12,189 million. Reported EBIT included net unrealized derivative losses of NOK 466 million and positive metal effects of NOK 419 million. Reported EBIT also included a net loss of NOK 19 million in Sapa (Hydro's share net of tax) relating to unrealized derivative losses and net foreign exchange losses, a charge of NOK 210 million, of which NOK 181 million is linked to an environmental liability at the Kurri Kurri site and NOK 29 million is related to rationalization costs in Extruded Solutions. In addition, reported EBIT included a charge of NOK 245 million related to a customs case in Germany and a gain of NOK 33 million in relation to remeasurement of environmental liabilities in Germany. Reported EBIT also

included a net gain of NOK 2,171 million and an inventory valuation expense of NOK 707 million, both related to the Sapa transaction.

In the previous year, reported earnings before financial items and tax amounted to NOK 7,011 million including net unrealized derivative gains and positive metal effects of NOK 553 million in total. Reported earnings also included charges of NOK 192 million relating to the demolition of the Kurri Kurri site, impairment charges of NOK 426 million relating to the part-owned projected CAP alumina refinery and the Hannover site, a net gain of NOK 314 million relating to the sale of certain assets in Grenland, in addition to a negative adjustment relating to the sale of the Slim rolling mill in the fourth quarter of 2015. Other positive effects of NOK 223 million reflects the compensation relating to the completion of outstanding contractual arrangements with Vale and the charge of NOK 32 million relating to re-measurement of environmental liabilities in Germany. In addition, reported earnings included a net gain of NOK 113 million for Sapa (Hydro's share net of tax), relating to unrealized derivative gains, rationalization charges and net foreign exchange gains.

Net income for 2017 amounted to NOK 9,184 million. This included a net foreign exchange loss of NOK 875 million reflecting a strengthening of USD against BRL affecting US dollar debt in Brazil, while the strengthening of EUR forward rates against NOK resulted in an unrealized loss on the embedded derivatives in power contracts denominated in EUR.

In the previous year net income amounted to NOK 6,586 million including a net foreign exchange gain of NOK 2,266 million. The net foreign exchange gain in 2016 was mainly comprised of unrealized currency gains on US dollar debt in Brazil and embedded derivatives in power contracts denominated in Euro. The net foreign exchange gain also included gains on internal debt denominated in Euro.

Income taxes amounted to a charge of NOK 1,891 million in 2017, compared with a charge of NOK 2,551 million in 2016. The tax expense rate was about 17 percent of income before tax. The low tax rate results from a tax-free gain on the revaluation of Hydro's previous ownership interests in Sapa and positive effects from US tax reform, partly offset by a relatively high share of reported income before tax subject to power sur-tax.

Liquidity, financial position, investments

Hydro manages its liquidity at the corporate level, ensuring sufficient funds to cover group operational requirements.

The acquisition of the remaining shares in Sapa was finalized with a cash consideration of NOK 11.9 billion, and the

transaction was financed with surplus cash and bond financing. Net cash provided by operating activities of NOK 14.3 billion was sufficient to cover net cash used in investing activities.

Hydro's net cash position changed from NOK 6.0 billion at the end of 2016 to a net debt position of NOK 4.1 billion at the end of 2017. Hydro's adjusted net cash (debt) to equity ratio was 26 percent, well below its targeted maximum ratio of 55 percent. Our funds from operations/adjusted net cash (debt) ratio was 68 percent, above the targeted minimum of 40 percent over the business cycle. See note 38 to the consolidated financial statements for information on Hydro's capital management measures.

Norsk Hydro ASA has a USD 1.7 billion revolving multi-currency credit facility with a syndicate of international banks, maturing in November 2020. Drawing per year-end 2017 was approximately NOK 3 billion, repaid in January 2018. The facility will continue to serve primarily as a back-up for unforeseen funding requirements. See note 38 to the consolidated financial statements for additional information.

Market developments and outlook

Upstream market developments

The Platts alumina price index started the year at USD 349 per mt ranging from USD 272 to USD 484 per mt during 2017, ending the year at USD 389 per mt. Prices averaged USD 355 per mt for the year, an increase of 40 percent compared to 2016. Prices as a percentage of LME varied, averaging 17.8 percent for the year compared with 15.7 percent in 2016. Spot prices at the end of 2017 represented 17.2 percent of LME.

Chinese alumina imports amounted to 2.9 million mt in 2017, a 5 percent decrease compared with 2016. The imports were supplied by excess capacity in the market outside China. Also in 2018, the alumina supply outside China was expected to considerably exceed demand. However, the Alunorte production cut, if sustained over a longer period, might lead to an undersupply situation outside China.

Bauxite imports into China increased to 68.8 million mt, or 32 percent higher compared to 2016. The increase was driven by surging imports from Guinea reaching 27.6 million mt in 2017 from 11.9 million mt in 2016 as new bauxite mines continued to increase production. Guinea therefore became the largest supplier to China, ahead of Australia with 25.5 million mt, 20 percent higher compared to 2016. Imports from Malaysia decreased 37 percent to 4.9 million mt as a bauxite mining moratorium imposed from January 2016 was enforced more effectively. After a three year hiatus because of

a Government imposed export ban, imports from Indonesia resumed in July reaching 1.3 million mt for the year. Imports from Brazil decreased 25 percent to 3.3 million mt.

According to Chinese import statistics, the monthly average delivered China bauxite price was relatively stable in 2017, ranging between USD 48 and 53 per mt. Prices averaged USD 51 per mt for the year, an increase of 3 percent compared to 2016.

Three month LME prices started the year around USD 1,700 per mt and increased every quarter. In the last quarter, the prices continued to rise as seen in third quarter, and spiked considerably towards the end of the period. At the end of the year prices had increased by around USD 550 per mt over the year, reaching a level of around USD 2,240 per mt. Prices averaged USD 1,885 per mt in the first half of 2017 and increased to an average of USD 2,073 per mt in the second half of the year.

North American standard ingot and product premiums started the year at USD 200 per mt and at USD 138 per mt for the standard ingot premium in Europe. The premiums continued to fluctuate around these levels for most of the year, although both premiums turned upwards towards year-end. Average North American standard ingot premiums increased USD 8 per mt over the year, reaching USD 208 per mt at year end. Corresponding standard ingot premiums in Europe increased about USD 25 per mt, reaching USD 162 at the end of 2017. Premium developments have been influenced by exports of semi-finished products from China and metal availability from warehouses.

Global primary aluminium consumption increased by 5.8 percent to 63.6 million mt in 2017. Global supply increased by 7.7 percent to 63.5 million mt resulting in a rather balanced situation, with a deficit of around 0.1 million mt. For 2018, global primary aluminium supply and demand is expected to increase by 4-5 percent, resulting in a largely balanced global market also in 2018.

Demand for primary aluminium outside China increased by around 3.4 percent, while corresponding production increased by 1.0 percent. Overall, demand outside China exceeded production by close to 2.0 million mt in 2017. Demand for primary aluminium outside China is expected to grow by around 3-4 percent in 2018. Corresponding production is also expected to be up 3-4 percent, resulting in a deficit in the world outside China also in 2018.

Demand for primary metal in China increased around 8.0 percent to 34.4 million mt in 2017. Production increased by around 13.4 percent, resulting in a surplus of around 1.9 million mt for the year. Chinese primary production growth

is expected to fall in 2018 to around 4-6 percent, influenced by cutbacks due to illegal capacity and winter closures during 2018. This follows the directions given by the Chinese government in 2017, whereby capacity expansions in 2018 will be closely controlled, and principally be balanced through a quota scheme for removing old and idled, uncompetitive capacity. This should reduce surplus capacity going forward. Primary demand is estimated to increase by around 4-6 percent, resulting in a rather stable surplus in 2018.

LME stocks fell throughout the year from 2.2 million mt at the end of 2016 to 1.1 million mt at the end of 2017. Most of the metal in warehouses continues to be owned by financial investors. Total inventories, including unreported inventories are estimated to have been rather stable throughout 2017. This means that stocks have moved from reported to unreported warehouses. The total stock level is estimated to be 12.5 million mt at the end of 2017.

Demand for extrusion ingot, foundry alloys and sheet ingot in Europe has been solid during 2017 and increased compared to the previous year. The consumption of wire rod in the European market went up moderately in 2017 compared to 2016. Consumption of extrusion ingot has been strong in the US also in 2017, while the demand for primary foundry alloys also increased compared to 2016. In Asia (excluding China), the market for extrusion ingot and primary foundry alloys continued to show moderate growth.

Downstream market developments

The European market for flat rolled products increased by around 3.7 percent in 2017 and reached another record year. Demand growth was stronger in the second half of the year driven by automotive and general engineering.

The European market for extrusion experienced stronger automotive and transportation demand, as well as improved demand in the building and construction markets. North America was also driven by stronger automotive demand and higher activity in the building and construction market. The commercial transportation market has declined slightly, but improved towards the end of the year.

Energy market developments

In 2017, Nordic electricity prices increased compared to the previous year, primarily due to increasing exports towards Continental Europe. The prices over the year remained quite stable amid a mild winter season and a consistent inflow during the spring thaw season. The overall hydrological situation was stable ranging somewhat below normal before improving significantly in late autumn. Power prices in Southern Norway remained close to the Nordic system price due to the hydrological situation and improving export

capacities. Nordic consumption remained unchanged at 386.8 TWh in 2017, while total power production increased by 6.2 TWh to 398.1 TWh.

In Brazil, after two years of reduced demand due to a recession, the economic recovery had a positive effect on demand in 2017.

Risk review

Hydro has developed and implemented an enterprise risk management model approved by the Board of Directors. In accordance with this model, risk factors that are relevant for Hydro's business are continuously identified, analyzed, addressed and monitored. Risk management is an integral part of our business activities, and the business areas consequently have the main responsibility for managing risks arising from their business activities. Hydro's corporate staffs establish and develop policies and procedures for managing risk, and coordinate a semi-annual overall enterprise risk assessment. Major risks are followed up, on an ongoing basis, as part of our internal performance review structure.

Risk management in Hydro is based on the principle that risk evaluation and mitigation is an integral part of all business activities. A core strategy to reduce the risks related to weak economic and unfavorable market developments is the continual improvement of our competitive and cost position as well as maintaining a solid financial position and strong creditworthiness. Hydro's integrated value chain plays a key role in mitigating risk as the earnings volatility in upstream aluminium is typically higher, whereas downstream and Energy businesses generate more stable earnings over time.

Below is a description of some of the principle risks identified that may affect our business operations, reputation, financial condition, results of operations and, ultimately affect our share price. Some of the mentioned risks might have a positive business impact or represent a business opportunity, whereas the focus in the description below is on downside risk. There may be additional risks unknown to Hydro at the date of this report and risks, currently considered to be immaterial, which could become material. All of the information in this report should be carefully considered by investors, in particular, the risks described in this section.

Changes in the regulatory framework or political environment in which Hydro operates could have a material adverse effect on the company

Hydro needs competitive and predictable framework conditions. Hydro is subject to a broad range of laws and regulations in the legal jurisdictions in which we operate.

These laws and regulations impose stringent standards and requirements and potential liabilities regarding accidents and injuries, the construction and operation of our plants and facilities, payment of taxes, air and water pollutant emissions, the storage, treatment and discharge of waste waters, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination, among other things. Changes in such laws and regulations, or changes in the way these laws and regulations are interpreted or enforced, may impact our operational licenses, and have a significant negative financial effect for Hydro. There is a risk that new taxes or tariffs are introduced, or the current tax or tariff levels will be increased in the future.

Hydro's operations include extracting and refining bauxite resources and utilizing water resources for the generation of power. Such activities have increasingly been subject to local and regional tax regimes which are separate from, and in addition to, national tax regimes such as corporate income tax.

Hydro is exposed to a risk of unfavorable macro-economic development, including risk of prolonged periods of low aluminium and alumina prices and oversupply in the global aluminium market, in addition to changes in global trade policy framework

The aluminium industry is pro-cyclical with demand for products closely linked to economic development. This results in significant volatility in the market prices for aluminium products in periods of macroeconomic uncertainty or recession. Macroeconomic development also drives changes in currency values, which have a significant effect on Hydro's cost and competitive position. Aluminium products are traded globally. Development in global trade flows, trade framework, tariffs and anti-dumping legislation are therefore of importance.

Our business is exposed to competition from China, which could have a significant negative impact on market prices and demand for our products

China is the world's largest consumer and producer of aluminium, with more than half of the global production capacity. As a result, changes and developments in aluminium supply and demand in China have a significant impact on global market fundamentals.

Hydro could be negatively affected by investigations, legal proceedings, material CSR incidents or major non-compliance with laws and regulations

Hydro could be negatively affected by criminal or civil proceedings or investigations related to, but not limited to product liability, environment, health and safety, alleged anti-competitive or corrupt practices or commercial disputes. Violation of applicable laws and regulations could result in substantial fines or penalties, costs of corrective work, the suspension or shutdown of our operations and substantial damage to the company's reputation.

In addition, Hydro is exposed to actual or perceived failures to behave in a socially responsible manner beyond regulatory requirements, as defined by non-governmental organizations or other key stakeholder groups. Such failures could result in significant, negative publicity and potential serious harm to Hydro's reputation. Reactions by key stakeholders and communities in which Hydro operates could also interfere or interrupt the operations of our business.

Hydro may fail to realize sufficient value in the execution and implementation of major projects or business acquisitions

Hydro makes significant capital investments and acquisitions as part of its business development, and may not be able to realize the benefits expected from such transactions and projects. Major projects and acquisitions are subject to significant risk, and uncertainty in making the investment evaluation, project execution and subsequent operations. Acquisitions may also contain significant unidentified risks and liabilities, which could have a material adverse effect on our profits and financial position.

Hydro could be adversely affected by disruptions or major incidents in our operations and may not be able to maintain sufficient insurance to cover all risks related to its operations

Hydro's business is subject to a number of risks and hazards which could result in disruptions to operations, damage to properties and production facilities, personal injury or death, environmental damages, monetary losses and possible legal liability. Some of our operations are located in close proximity to sizable communities. Major accidents could result in substantial claims, fines or significant damage to Hydro's reputation. Breakdown of equipment, power failures or other events leading to production interruptions in our plants could have a material adverse effect on our financial results and cash flows.

Hydro may be unable to achieve or maintain the operational targets necessary to secure the competitiveness of our business

Hydro operates in a highly competitive market where operational excellence in all parts of the value chain is required to reach and maintain a competitive position. This includes each step of the business process from the sourcing of raw materials, to physical operations of each plant, and the commercial optimization of the product portfolio. Failure to create an environment and competence which enables the organization to continuously achieve stretched operational targets will reduce the competitiveness of our business and result in the failure to meet our long-term financial targets.

Hydro is exposed to the threat of cyber attacks which may disrupt its business operations, and result in reputational harm and other negative consequences

Hydro's IS/IT infrastructure is a critical element in all parts of our operations, ranging from process control systems at production sites, central personnel databases to systems for external financial reporting. Cyber crime is increasing globally, and Hydro is exposed to threats to the integrity, availability and confidentiality of our systems. Threats may include attempts to access information, computer viruses, denial of service and other electronic security breaches.

Financial position

Our main strategy for mitigating risk related to volatility in cash flow is to maintain a strong balance sheet. Specific key financial ratio levels over the business cycle are targeted, reflecting a solid financial position and investment grade credit rating. These include an Adjusted net cash (debt) to equity ratio below 0.55 and a ratio of Funds from operations to Adjusted net cash (debt) above a level of 0.40.

Maintaining investment grade credit rating secures access to capital markets at attractive terms and gives other important benefits.

Hydro's liquidity position at the end of 2017, a net debt of NOK 4.1 billion, is considered solid. Hydro also has a credit facility of USD 1.7 billion which expires in 2020. Drawing per year-end 2017 was approximately NOK 3 billion, this was repaid in January 2018. Hydro continues to focus on cash flow and credit risk throughout the organization.

Key financial exposures

Hydro's operating results are primarily affected by price developments of our main products, raw materials, margin developments and to fluctuations in the most significant currencies for Hydro, which are the USD, NOK, EUR and BRL.

Hydro's main risk management strategy for upstream operations is to accept exposure to price and exchange rate movements, while at the same time focusing on reducing the average cost position of production assets. In certain circumstances, derivatives may be used to hedge certain revenue and cost exposures.

Downstream and other margin-based operations are to a certain extent hedged to protect processing and manufacturing margins against price fluctuations. An operational hedging system has been established to protect commercial contracts from aluminium price fluctuations.

To mitigate the impact of exchange rate fluctuations, long-term debt is mainly maintained in currencies reflecting underlying exposures and cash generation, while considering attractiveness in main financial markets. Hydro may also use foreign currency swaps and forward currency contracts to reduce effects of fluctuations in the US dollar and other exchange rates.

The table below shows sensitivities regarding aluminium prices and foreign currency fluctuations for 2018. The table illustrates the sensitivity of earnings, before tax, to changes in these factors and is provided to supplement the sensitivity analysis required by IFRS, included in note 13 to the Consolidated Financial Statements. These sensitivities do not consider revaluation effects of derivative instruments, which may influence earnings.

Commodity price sensitivity +10%

NOK Million	UEBIT
Hydro Group	
Aluminium	3 900

Currency sensitivities +10%

NOK Million	USD	BRL	EUR
Sustainable effect			
EBIT	3 860	(1 210)	(230)
One-off reevaluation effect			
Financial items	280	550	(2 170)

Annual sensitivities based on normal annual business volumes. LME USD 2 100 per mt, fuel oil USD 440 per mt, petroleum coke USD 400 per mt, caustic soda USD 645 per mt, coal USD 85 per mt, USDNOK 8.20, BRLNOK 2.50, EURNOK 9.60

Aluminium price sensitivity is net of aluminium price indexed costs and excluding unrealized effects related to operational hedging

BRL sensitivity calculated on a long-term basis with fuel oil assumed in USD. In the short term, fuel oil is BRL-denominated

Excludes effects of priced contracts in currencies different from underlying currency exposure (transaction exposure)

Currency sensitivity on financial items includes effects from intercompany positions

Compliance, controls and procedures

Hydro's Code of Conduct requires adherence with laws and regulations as well as internal steering documents and is systematically implemented and followed up through our compliance system. The compliance system is based on four pillars: prevention, detection, reporting and responding. In addition to financial compliance, priority areas are HSE, anti-corruption, competition law and data privacy (see the section Society).

Hydro follows the Norwegian Code of Practice on Corporate Governance of October 2014. Details on Hydro's compliance with the code are in the section Norwegian Code of Practice on Corporate Governance, in the appendices to this report.

The Board Audit Committee carries out a control function and arranges for the board to deal with the company's financial and extra-financial reporting.

Research and development

The greater part of Hydro's R&D expenses is directed to our in-house research organization, while the remainder supports work carried out at external institutions. Our main R&D centers are in Årdal (smelter technology) and Sunndal (alloys and casting) in Norway, Bonn in Germany (Rolled Products), and Finspång in Sweden (Extruded Solutions). Bauxite & Alumina has a research department at Alunorte in Barcarena, Brazil, with increasing activity.

Our R&D efforts are concentrated on:

- Making products that promote the use of aluminium and sustainable development
- Developing the world's best electrolysis technology
- Using R&D and technology to ensure optimal operations in existing assets, including cost and HSE
- Developing recycling technology
- Increasing the share of value added products and tailored solutions for the customer
- Utilizing the opportunities of Industry 4.0 to improve process stability, productivity, cost and safety

Hydro's Technology Board consists of all members of Hydro's Corporate Management Board. The group meets every quarter to understand and discuss innovations across the business areas, including their value to the company. Innovations include the changes achieved through our continuous improvement work on all organizational levels. Business areas are responsible for their own technology

R&D expenses



Received funding in 2017 accumulated to NOK 62 million. In addition comes NOK 639 million related to Enova's support to the Karmøy Technology Pilot.

development and for the execution of their respective technology strategies. A corporate technology office shall ensure a holistic and long-term approach to Hydro's technology strategy and agenda. In 2017, Hydro established a Chief Technology Officer (CTO) position, reporting directly to the CEO, in order to further strengthen technology leadership. The CTO leads an internal R&D network with representatives from the business areas, and supports the Hydro Technology Board in developing overall research and technology priorities and strategies.

A major advantage for Hydro is the knowledge and control of the entire value chain from bauxite mining, alumina refining, electrolysis of primary aluminium and alloy technology to finished products. Upstream R&D and other innovation efforts mainly emphasize technology development and operational efficiency. In downstream operations, new products and applications are of utmost importance, and largely developed in cooperation with our customers.

Our aluminium plant Sunndal in Norway, and Qatalum in Qatar, utilize our enhanced HAL 300 technology with an energy consumption of about 13.5 kWh/kg aluminium compared to a global average of about 14 kWh/kg. Our 75,000-mt technology pilot with the aim of full-scale industrial testing of our proprietary HAL4e technology, started production at Karmøy, Norway, in January 2018. The technology pilot consists of 48 cells with HAL4e technology (operated with energy consumption of 12.3 kWh/kg) and 12 cells with HAL4e Ultra technology (11.5-11.8 kWh/kg). At these levels, energy utilization will be 12-to-18 percent better than the industry average. Total direct and indirect emissions are expected to be 1.4 kg CO₂ equivalents/kg aluminium, or more than 30 percent lower than the world average of 2.1. The total cost of the project was NOK 4.3 billion. Enova, a Norwegian public enterprise

supporting new energy and climate-related technology, contributed NOK 1.6 billion of the total cost. In addition to benefiting possible new plants, technology elements may be implemented in existing plants to improve energy efficiency and operational stability.

An important part of Hydro's overall technology strategy is that our researchers cooperate closely with operators and experts in optimizing operations in existing plants. The competence base in Hydro's technology environments is on a very high level and in core areas it is world-class. In recent years we have emphasized utilizing this competence in operational improvements.

Society

As a global aluminium company with mining interests, ensuring responsible conduct in relation to society at large is important throughout Hydro's activities. We have to consider our impact on society, spanning from construction to divestment activity, as well as the exposure to corruption and human rights violations, both within our own operations and in the supply chain.

We require adherence with laws and regulations as well as Hydro's corporate directives. This includes identifying and mitigating corruption risks and human rights violations. Our compliance system is based on four pillars: prevention, detection, reporting and responding. Combating corruption and respecting human rights are integral to our supplier requirements. Some of the measures we pursue to ensure integrity and responsible behavior include:

- Zero tolerance of corruption
- Ongoing human rights due diligence, this includes joint ventures and suppliers in addition to our own operations
- Continuous stakeholder engagement linked to existing operations and new projects

Hydro's board-sanctioned Code of Conduct requires adherence with external laws and regulations as well as corporate directives. It is systematically implemented and followed up through our compliance system. The Code of Conduct is planned updated in 2018, as part of the integration process of Sapa. All new employees have to confirm that they have received, read and understood Hydro's Code of Conduct. Sapa had similar routines.

The priority areas of the compliance system are the four pillars described above. In addition comes financial reporting, HSE, anti-corruption, competition law and data privacy. The Head of Corporate Compliance reports to the Board of

Directors through the Board Audit Committee at his or her own discretion. He or she meets with the Board of Directors periodically and participates in all Board Audit Committee meetings.

Compliance is integrated with our enterprise risk management, business planning and follow-up processes including relevant key performance indicators. It is addressed in the quarterly performance review meetings each business area has with the CEO, and an annual compliance report is submitted to the Board of Directors.

Corporate responsibility issues are systematically addressed in activities relating to business development, investment programs and project execution. Hydro's corporate social responsibility (CSR) is built on the basis of making a positive difference by strengthening our business partners and the local communities where we operate. To do this, we target the fundamental drivers of long-term development. In line with stakeholder expectations and needs, and through strong partnerships, we aim to:

- Contribute to quality education in our communities
- Promote decent work throughout the value and supply chain
- Foster economic growth in our communities
- Strengthen local communities and institutions through capacity building on human rights and good governance

Employees are encouraged to discuss concerns and complaints with their superior. If the employee deems this not to be appropriate, he or she may address the local human resources or HSE staffs, a safety representative, a compliance officer or the legal department. If the employee is uncomfortable using any of the above channels for any reason, Hydro's whistle-blower channel, AlertLine, can be used. All employees and on-site contractors have anonymous access in their own language at all times via toll-free phone numbers, Hydro's intranet or through a dedicated address on the internet. In certain countries, e.g. Spain, there are, however, legal restrictions on such reporting lines. In 2017, 123 reports were filed through Hydro's AlertLine compared to 173 in 2016. In addition, 179 cases were reported through former Sapa's whistle-blower channel in 2017. All cases were investigated, and in total six persons were dismissed as a result of the investigations.

Every quarter the head of Hydro's internal audit informs the board audit committee and the corporate management about matters reported through the AlertLine. The head of internal audit reports to the company's board of directors through the board audit committee. Hydro's internal audit has resources both in Norway and Brazil.

We recognize that our activities impact the societies in which we operate, and we have a long tradition of conducting dialogues with the relevant parties affected by our activities. These include unions, works councils, customers, suppliers, business partners, local authorities and non-governmental organizations. We have established contact with local authorities and representatives for our neighbors, including dialogue with traditional Quilombola groups in Brazil. The current grievance mechanism for Hydro's activities in Brazil was introduced in 2014. In 2018, we will start the work with a group wide solution. In Barcarena in Pará, the location of the Alunorte alumina refinery and Hydro's Albras smelter, more than 60 civil society organizations participate in the Intersectoral Forum together with local authorities and Hydro. The forum is managed by Instituto Internacional de Educação do Brasil, IEB.

Hydro has significant operations in Barcarena, Brazil, including the Alunorte alumina refinery and Albras aluminium plant. Local social conditions are challenging with high levels of unemployment and general poverty. In 2017, there were several demonstrations near our operations, mainly targeting local and federal authorities. Of these, a few targeted also Hydro directly. In 2017, about 300 illegal dwellings were removed from Hydro industrial land by the authorities. Hydro hired the local NGO Instituto Peabiru to act as a third party observer to report any human rights violations. The operation was described as peaceful with the vast majority of people removing their belongings voluntarily. Hydro assisted the settlers in transporting their belongings to a location of their choice.

In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, led to regional flooding. Surveillance authorities inspected Alunorte's alumina refinery and surrounding areas, following reports of possible leakage and water contamination. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

Hydro's commitment to safe and environmentally sound operations is universal and absolute. We are concerned about the situation and for the people and local communities of Barcarena affected by the flooding.

Regardless of the cause, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

Measures are being implemented to resolve the situation at Alunorte, including establishing an internal task-force to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions.

In 2017, the Danish Institute for Human Rights (DIHR) performed a comprehensive mapping of Hydro's human rights risks. The mapping covered all countries in which Hydro operates, and the report was made publicly available in January 2018. Hydro has been working with DIHR since 2011. Extruded Solutions' operations was not included in the mapping.

In 2017, Hydro, spent NOK 36 million on community investments, charitable donations and sponsorships, of which about 65 percent was related to community investments. Extruded Solutions has a wide range of sponsorships and support programs based on local needs. These activities are not yet included in Hydro's reporting. An example of initiatives is the planned project for improved handling of municipal waste in Barcarena in Brazil. The project aims to improve the working conditions for those currently involved in waste collection as well as promoting environmental awareness in the community.

Hydro is concerned about fundamental labor rights, such as freedom of association, minimum wage requirements and the regulation of working hours. We support the principle of freedom of association and collective bargaining, and have a long tradition of maintaining a good dialogue with employee organizations. All major sites in Europe and Brazil are unionized. Extruded Solutions has a major presence in the USA, and about 60 percent of our US employees are working at unionized sites. In 2016, Hydro renewed its global frame agreement with labor unions through the end of 2018. The agreement aims at creating an open channel of information between the parties about industrial relation issues in order to continuously improve and develop good working practices and conditions in Hydro's worldwide operations.

Hydro's supplier requirements related to corporate responsibility are, as stated in our corporate directives, an integral part of all stages of the procurement process. The requirements cover issues related to environment, human rights, anti-corruption and working conditions, including work environment. In Extruded Solutions, Sapa's supplier declaration was under implementation. Extruded Solutions will start to implement Hydro's supplier requirements in its business relations and new contracts in 2018.

Hydro is committed to the protection of people, environment and physical assets, anticipating and preparing for possibly adverse incidents with crisis potential in order to maintain business and operational continuity.

Hydro has been included in the Dow Jones Sustainability Indices each year since the index series started in 1999. We are also listed on the corresponding UK index FTSE4Good, and the UN Global Compact 100 stock index.

Hydro support the principles underlying the Universal Declaration of Human Rights, the UN Global Compact and ILO's eight core conventions. We are a member of the International Council on Mining and Metals (ICMM) and are committed to following their principles and position statements. We are also a member of the Aluminium Stewardship Initiative, a multi-stakeholder process to set standards to improve environmental, social and governance performance across the aluminium value chain.

Hydro uses the GRI Standards for voluntary reporting of sustainable development. We support the Extractive Industries Transparency Initiative (EITI) and comply with the Norwegian legal requirements on country-by-country reporting, and we prepare a UK Modern Slavery Act transparency statement, see the appendices to this report.

In addition, we follow the Oslo Børs guidance on the reporting of corporate responsibility.

Environment

The most important environmental effects of Hydro's activities relate to climate change, biodiversity, recycling and waste management. The main resource inputs are bauxite, energy, water and land use.

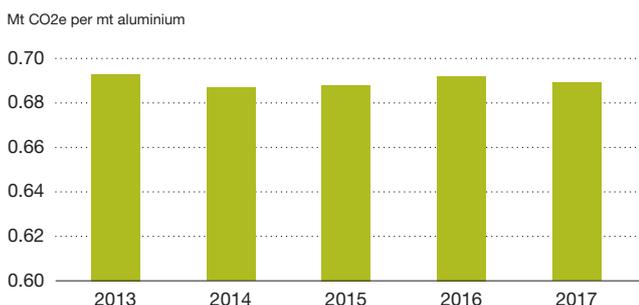
Hydro's climate strategy is an integral part of the overall business strategy, including reducing the environmental impact of our production activities as well as taking advantage of business opportunities by enabling our customers to do the same. Our ambition is to be carbon neutral in a life-cycle perspective by 2020, and we expect to achieve the 2020 target mainly through:

- Increased production of primary aluminium in Norway, which is based on hydropower
- Increased recycling
- Increased deliveries to the automotive sector

The target to become carbon neutral in a life-cycle perspective includes the effects of forest clearing and rehabilitation in Paragominas in Brazil. While total greenhouse gas (GHG) emissions are expected to increase toward 2020, mainly due to increased production of alumina and primary aluminium, Hydro is on track toward carbon neutrality in 2020. It will, however, require that we succeed in increasing our Norwegian capacity according to plan, and that we are able to increase our recycling of post-consumer scrap. With the increase of GHG emissions from Extruded Solutions it is uncertain whether their share of post-consumer scrap is sufficient to compensate. Our carbon neutrality is also sensitive to our penetration into the automotive market. The planned fuel switch project at Alunorte is not included in the forecast by 2020 and will, if realized, further improve Hydro's carbon balance.

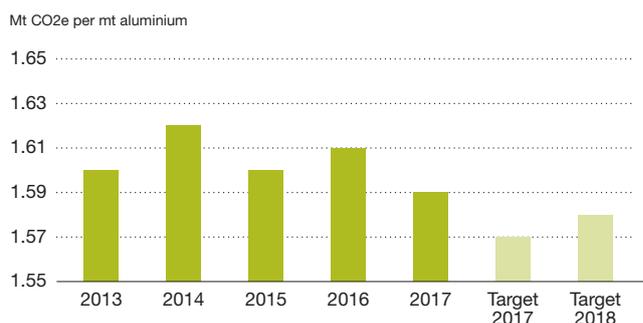
GHG emissions from Hydro's consolidated activities, including indirect emissions from electricity generation, increased by 1 percent in 2017. The increase based on our ownership equity was insignificant. GHG emissions increased in Primary Metal mainly due to production disturbances at Karmøy and Albras.

GHG emission intensity – alumina refining



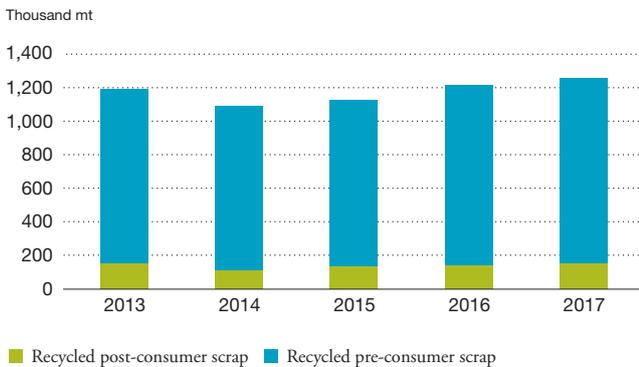
Includes greenhouse gas (GHG) emissions from alumina refining.

GHG emission intensity – electrolysis



Greenhouse gas (GHG) emissions from the electrolysis process from Hydro's smelters, excluding Neuss in Germany.

Recycling



The inherent properties of aluminium make recycling attractive. It can be recycled infinitely without degradation in quality, and recycling requires 95 percent less energy than primary aluminium production. A strong position in recycling of post-consumer aluminium scrap is therefore necessary for us to be able to reach our carbon neutrality ambition. Through specific projects we are increasing our capacity to process post-consumer scrap by a total of 80,000 mt in Clervaux, Luxembourg, and Neuss, Germany. Ramp-up of the new production line for recycling of low-grade used beverage cans in Neuss, Germany, has been further delayed, but is expected to be at the targeted run-rate by end of 2018.

In 2017, Hydro started a review of its climate-related risks and opportunities, including physical, technological, commercial, legal and reputational risk. Hydro also became a signatory to the Task Force on Climate-Related Financial Disclosures (TCFD). The review of Hydro's climate related risks will be finalized in 2018, and will also include scenario analyses.

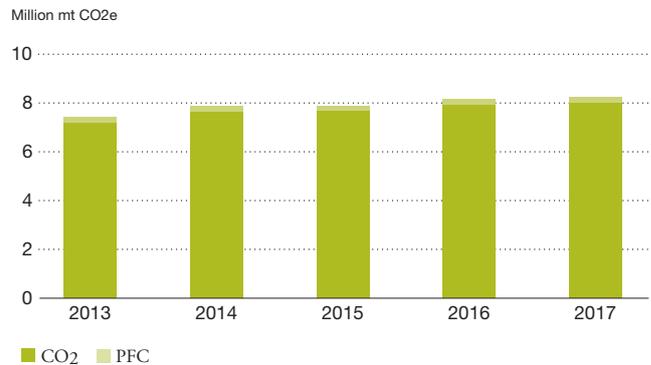
Our environmental strategy also emphasizes:

- Ecosystems and biodiversity
- Water stewardship
- Waste and efficient resource use
- Product stewardship

Biodiversity is an important issue in Pará in Brazil and to the watersheds of our hydropower production in Norway. When developing new projects, we examine environmental issues ahead of time, and we strive for achieving no net loss of biodiversity.

In 2017, we rehabilitated a total of 185 hectares (ha) of previously mined land in Brazil.

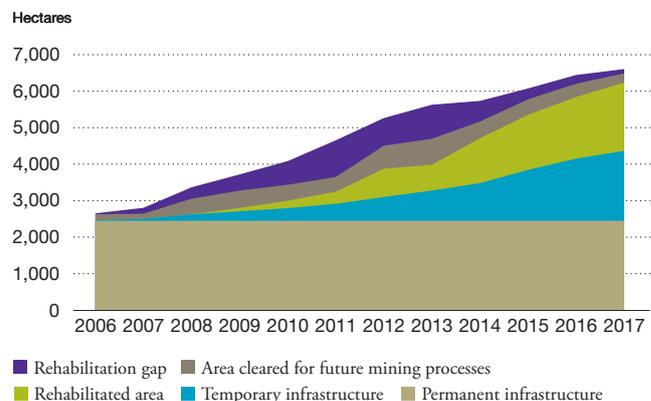
Direct greenhouse gas emissions from Hydro's consolidated activities



Although originally set for 2017, the 1:1 rehabilitation target will continue to apply from 2018 onwards, as it provides a solid driver for rehabilitation. However, the target will become a rolling target, aiming for a 1:1 rehabilitation of areas available for rehabilitation. The target will from 2018 cover two hydrological seasons after release. This revised definition takes into account the nature of the mining and rehabilitation cycles, and the time lag necessary to ensure quality rehabilitation to restore biodiversity. It also takes into account that land periodically needs to be set aside for temporary infrastructure in order to safely operate the mine.

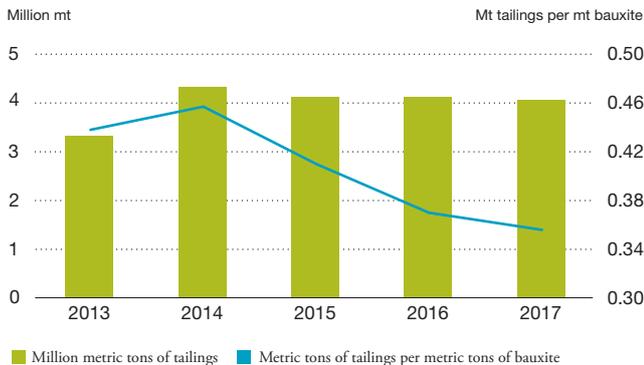
We cooperate with academic institutions to increase our knowledge and secure a science-based approach. This includes the formation of the Biodiversity Research Consortium Brazil-Norway (BRC) in 2013. The partnership agreement was extended for another five years in 2017.

Land use and rehabilitation – Paragominas



Permanent infrastructure includes areas related to administrative buildings, industrial facilities, tailings dams, the pipeline to Alunorte and permanent roads. Temporary infrastructure includes among other things temporary roads and areas dedicated for new tailings dams.

Tailings from bauxite production



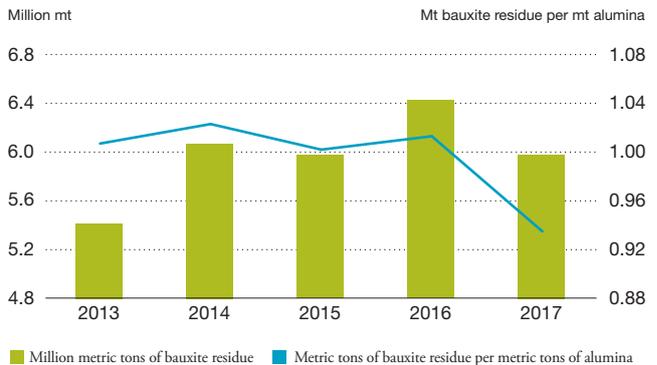
In addition to land use and biodiversity, the main environmental issues in bauxite extraction and alumina refining include waste disposal and greenhouse gas emissions. Waste production includes significant amounts of mineral rejects (tailings) from the bauxite extraction process and bauxite residue, also known as red mud, from the alumina refining process. Tailings are stored in settling ponds. Separated water is clarified and reused in the process.

In Paragominas, a new tailings system was completed in 2017. The new tailings dam is situated on a plateau where mining has been finalized. The old tailings system is constructed in a shallow valley. When tailings dams are closed, they need to settle for minimum five years before being available for rehabilitation.

Bauxite residue, also known as red mud, is a by-product of the alumina refining process. Its disposal is challenging due to large volumes and the alkaline nature of the liquid component of the residue. The residue is washed with water to lower the alkalinity and to recover caustic soda for reuse. Hydro uses an enhanced dry stacking technology for disposing of bauxite residue which allows for residue storage at steeper slopes, reducing the disposal area requirements. This reduces the relative environmental footprint. The construction of the new bauxite residue deposit area DRS2 at Alunorte includes more advanced press filters. These are capable to reduce the residue moisture content to 22 percent, down from 36 percent achieved with the drum filters technology. By 2019 the press filtration technology is planned to handle all bauxite residue generated by Alunorte. We also participate in international collaboration projects investigating possibilities to use bauxite residue as a resource. Additions to cement and other construction materials are areas that will be pursued.

The dams and deposits are frequently inspected by Hydro and Brazilian authorities, and are also subject to inspections

Bauxite residue from alumina production



by e.g. Norwegian Geotechnical Institute (NGI) and Geomecanica. The last visit from NGI to Paragominas and Alunorte took place in 2016 and resulted in an action plan to secure the long-term viability of the tailings dams and bauxite residue storage areas.

In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, led to regional flooding. Surveillance authorities inspected Alunorte's alumina refinery and surrounding areas, following reports of possible leakage and water contamination. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

After the extreme rain event and the following external inspections and internal reviews, instances of unlicensed discharges of contaminated rain and surface water have been identified. The plant has notified authorities about the discharges which were discovered by the plant.

Measures are being implemented to resolve the situation at Alunorte, including establishing an internal task-force to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions.

In addition, Hydro has implemented measures to assist local communities in Barcarena with health and water.

Spent potlining (SPL) from electrolytic cells used in primary aluminium production is defined as hazardous waste. We are actively trying to find alternative use of SPL from our operations.

Hydro uses the World Business Counsel for Sustainable Development (WBCSD) global water tool to perform an annual review of water withdrawal from water-stressed areas. For 2017 we have used an updated version of the tool, and included Extruded Solutions. Following the update of the WBCSD global water tool, the location of Rolled Products' sites in Germany are no longer classified as water-stressed, which reduced the amount of water withdrawal from water-stressed areas significantly. The mapping of Hydro's sites using the WBCSD global water tool in 2017 showed that 0.4 million m³ of our overall freshwater input came from water-stressed areas, with regard to annual renewable water supply (according to the definition used by WBCSD). This represents 0.5 percent of Hydro's overall fresh water input. Qatalum in Qatar relies on public water supply produced by desalination. Seawater is used for wet cooling towers at the power plant as well as for wet scrubbers at the potline fume treatment plants.

In 2017, Hydro developed a basic water risk analysis tool, covering water use and discharge, to be applied across key operations. Preliminary findings indicate that operating in water-stressed areas is not a key risk for these operations. This led to Hydro's previous target on reducing water use in water-stressed areas to be put aside. Instead, more significant risks are linked to the management of excess water and the quality of the external water bodies into which we discharge our used water. Extruded Solutions was not a part of the preliminary study.

The mass balance of mercury at Alunorte in Brazil was concluded in 2017. To reduce emissions to air, four filters are planned to be installed, on all four chimneys, the first in 2018 and the remaining three in 2019.

Engagement with customers and other stakeholders on the environmental impact of our processes and products is an important element of our product stewardship. We perform life-cycle assessments for all major product groups to identify improvement potential. We also assess other aspects such as energy and material consumption, toxicity and recyclability.

People

Our ambition is to prevent all accidents, especially serious ones. Hydro's safety performance deteriorated in 2017, and we experienced two fatal accidents. The development is concerning, and our combined TRI¹⁾ rate increased to 2.9 in 2017 from 2.6 previous year. Our target was 2.4. Internal

independent investigations are routinely initiated after fatal accidents and other serious incidents to identify the causes and reduce risk for recurrences.

Nearly half of the reported injuries in 2017 were related to hands, about 20 percent legs, 10 percent arms and shoulders and about 10 percent related to the face, eyes and ears.

Our approach to improving safety performance is based on risk management, leadership qualities and shop-floor engagement.

A handbook for assessing physical and chemical work environment risks is used by the business areas to identify potential health hazards and implement risk-reducing measures. The implementation has started in Extruded Solutions.

The occupational illness rate in 2017 was 0.3 cases per million hours worked, down from 0.7 in 2016 and steadily decreasing since 2012, excluding Extruded Solutions. Most of the cases related to occupational illness relates to noise. We do not yet have comparable data for Extruded Solutions.

Sick leave in Hydro's global organization was 3.4 percent in 2017. In 2016, Hydro's sick leave was 4.3 percent. In Norway, excluding Extruded Solutions, sick leave decreased from 4.4 percent to 4.0 percent. Women had a sick leave of 4.7 percent and men 3.8 percent.

Following the acquisition of the remaining 50 percent share of Sapa, Hydro had 34,625 permanent employees at the end of 2017, an increase from 12,911 in 2016. The number of temporary employees was 1,646 compared to 1,266 the year before. Contractor employees represented about 9,000 full-time equivalents during 2017, down from 9,500 in 2016. The large majority of employees are concentrated in the USA, Brazil, Germany and Norway. Through Extruded Solutions, Hydro has received a number of temporary workers employed by agencies. We will in 2018 map the extent of such use.

In 2018, Hydro aims for successful integration of the new business area Extruded Solutions and its almost 22,000 permanent employees. Two initiatives were established during 2017: New Chapter aims to create a common platform and identity for Hydro's 35,000 employees, renew the company's value platform the Hydro Way, its aspiration and strategic direction *Better, Bigger, Greener* stakeholder positioning strategy, and visual profile, including logo. The Fit4Future initiative aims at step-change improvements to lift staff value creation and lower costs, divided into three main focus areas:

1) Total Recordable Injuries per million hours worked. Extruded Solutions is included from 2 October 2017.

Fatal accidents



Hydro experienced two fatalities in 2017.

strategic fit, differentiation and simplification. Extruded Solutions will also start implementation of Hydro's common process for people performance and development, My Way, and Hydro Academy, a platform for learning and development.

In order to deliver on our strategic goals and remain competitive, Hydro needs employees with the right competence. This means that Hydro is dedicated to attracting, developing and retaining competence to ensure our future success. After an update of Hydro's people strategy in 2016, we continued to reinforce some existing procedures and implement some new. In 2018, we target a successful integration of Extruded Solutions in existing people processes and to develop a framework for competence management. The latter is important in successfully leveraging digital opportunities.

Hydro's global employee engagement survey Hydro Monitor is run every second year. The last survey took place in 2016, reaching the top 10 percent according to the IBM External Norm on the Employee Engagement Index. Maintaining employee engagement is a key priority going forward. All units have action plans based on their results. Sapa had its latest employee engagement survey in 2017. The last survey indicated improvements related to scores for closest manager. This is assumed to be a direct result of Sapa's work to build basic behavioral leadership down to middle managers. Hydro Monitor will be run in 2018, without Extruded Solutions, while the whole company is planned to be included in 2019.

Our common process for people performance and development, My Way, includes appraisal dialogue, individual development plan and follow-up, as well as talent planning and succession management. All employees were invited to participate in 2017 (excluding employees on leave

Total recordable injuries



and those being employed after the main part of My Way is performed) and 98 percent participated. Implementation of My Way in Extruded Solutions will start in 2018.

In order to have a pipeline of leaders with the required breadth of experience, we strive for rotating employees early in their careers so that they gain skills from different parts of the organization. This is also reflected in our diversity ambitions. Through the succession and career part of My Way, we work with the leadership and specialist pipeline and identify required development needs.

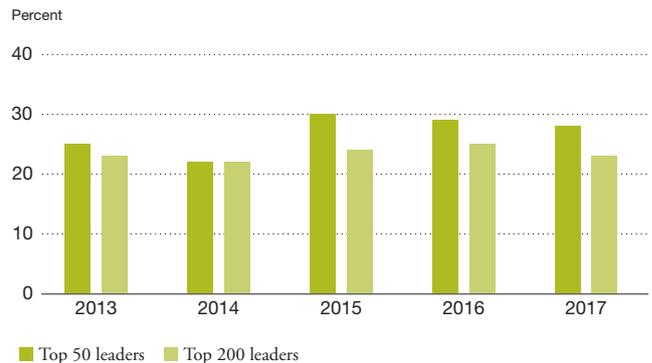
Hydro's organization around the world represents a great diversity in education, experience, gender, age and cultural background. We see this diversity as a source of competitive advantage for Hydro, as it encourages innovation, learning and better customer understanding. A diverse and inclusive work force is culturally and compliance-aware. In 2017, 17 percent of Hydro's employees were women, up from 14 percent in 2016, mainly due to the relative share in Extruded Solutions. The share of women was 40 percent in Hydro's Corporate Management Board in 2017. With three women among the six shareholder-elected members on the Board of Directors, Hydro complies with the Norwegian legal requirements on female representation. Hydro is in the process of reviewing its strategy to increase diversity and accommodate an inclusive work environment. The new strategy will better fit the current business needs and integrate Extruded Solutions.

We are adjusting working conditions so that all employees, regardless of their operability, have the same opportunities in their work place. In Brazil, we are required to employ minimum 5 percent disabled people. Paragominas and Alunorte almost reached the target, with 4.4 percent of the

Share of non-Norwegian leaders



Share of women leaders



The total share of women at all levels in Hydro was 17 percent in 2017.

required employees by the end of 2017, while Albras had 3.6 percent. All sites in Brazil are working to reach the legal requirement.

Restructuring and continuous improvement are essential elements of our business operations. Our aim is to involve employees in such processes at an early stage in order to achieve the best results for individuals and the company.

All employees shall receive a total salary that is fair, competitive and in accordance with the local industry standard. We have checked salary conditions in Brazil, Germany and Norway for Hydro's operations, excluding Extruded Solutions. There are no significant gender-pay differentials for employees earning collectively negotiated wages. We do not yet have a similar overview of Extruded Solutions.

The annual bonus of Hydro executives shall reflect achievements in relation to pre-defined financial targets, and operational and organizational key performance indicators (KPIs). Targets relating to safety, environment and other issues within corporate responsibility, as well as compliance with and the promotion of Hydro's core values (The Hydro Way) constitute a substantial part of the annual bonus plan. See note 8 and 9 to the consolidated financial statements for more information.

Board developments

The Board of Directors has an annual plan for its work. It includes recurring topics such as strategy review, business planning, risk and compliance oversight, financial reporting, people strategy, succession planning as well as HSE, climate change and CSR. The board of directors is closely following the market and macro-economic developments relevant for

the aluminium industry. In 2017 the Board of Directors had operational deep-dives into Energy and Rolled Products. The acquisition of the remaining 50 percent of the shares in Sapa AS, as well as the following integration of the Sapa organization, was high on the Board of Directors' agenda. The Board of Directors visited Brazil, including the bauxite mine in Paragominas and the alumina refinery at Alunorte.

The Board of Directors conducts an annual self-assessment of its work, competence and cooperation with management and a separate assessment of the chairperson. Also the board audit committee performs a self-assessment. The reviews are facilitated by the corporate advisory firm Lintstock. The main conclusions of all assessments were submitted to the nomination committee, which in turn assessed the board's composition and competence.

The Board of Directors held 14 meetings in 2017 with an attendance of 94 percent. The compensation committee held nine meetings and the audit committee eight meetings.

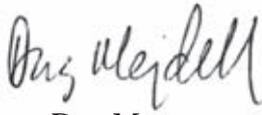
Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a net loss of NOK 183 million in 2017 compared with net income of NOK 9,114 million in 2016. The result reflects reduced dividends from subsidiaries in 2017 compared to 2016.

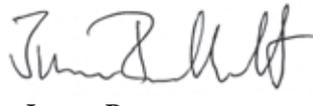
For 2017, Hydro's Board of Directors proposes a dividend of NOK 1.75 per share reflecting Hydro's strong operational performance for 2017 and solid financial position. This is up from NOK 1.25 per share paid out for 2016, which is still to be considered a floor. The proposed payment represents a 41 percent pay-out ratio of reported net income attributable to Hydro shareholders for the year, and demonstrates the company's commitment to provide a competitive cash return to shareholders, also taking into account the volatility in the aluminium industry.

According to section 3-3 of the Norwegian Accounting Act, the board of directors confirms that the financial statements have been prepared on the assumption of a going concern.

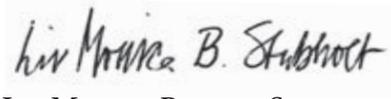
Oslo, March 19, 2018



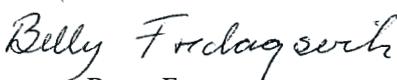
DAG MEJDELL
Chair



IRENE RUMMELHOFF
Deputy chair



LIV MONICA BARGEM STUBHOLT
Board member



BILLY FREDAGSVIK
Board member



FINN JEBSEN
Board member



STEN ROAR MARTINSEN
Board member



THOMAS SCHULZ
Board member



SVEIN KÅRE SUND
Board member



MARIANNE WIINHOLT
Board member



SVEIN RICHARD BRANDTZÆG
President and CEO

Business description

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QUICK OVERVIEW

Hydro is a fully integrated, leading worldwide supplier of bauxite, alumina, primary aluminium, aluminium casthouse products and fabricated aluminium products.

We have substantial interests in bauxite and alumina including one of the world's largest bauxite mines and the world's largest alumina refinery, both located in Brazil. We operate or are partners in modern, cost-efficient primary metal production facilities in several countries in Europe, Canada, Australia, Brazil and Qatar, and in flexible remelting plants in a range of countries in Europe and the US.

We are an industry leader for a range of downstream products and markets, in particular the building, packaging, lithographic and automotive sectors. We supply high-quality, value-added aluminium products and solutions, and have strong positions in markets that provide opportunities for good financial returns.

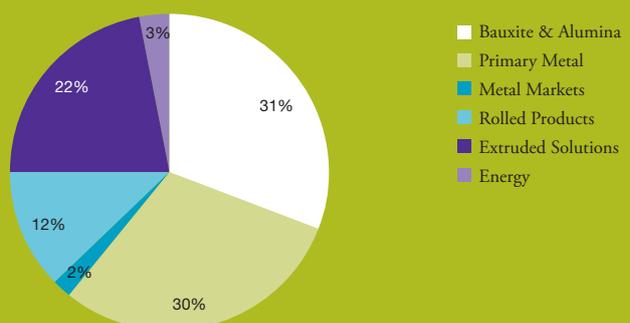
With more than 100 years of experience in hydropower, Hydro is the second-largest power producer in Norway, and the largest publicly owned producer.

Underlying EBIT 2017 NOK MILLION

11,215

Capital employed - upstream focus

December 31, 2017: 96,370 MNOK



History and development

Norsk Hydro ASA was organized under Norwegian law as a public company in 1905 to utilize Norway's large hydroelectric energy resources for the industrial production of nitrogen fertilizers. Our history, spanning many industries and several continents, has been underpinned by three distinctive strengths: the spirit of entrepreneurship, a dedication to innovation and the careful nurturing of our strengths and values.

An emphasis on industrial research and new business alliances enabled us to expand our fertilizer operations following the First World War. In 1928-29, improved fertilizer technology was introduced at Hydro's first industrial sites in Telemark in Southern Norway. Advancements in electricity transmission technology paved the way for the construction of a new fertilizer plant at Herøya, close to Porsgrunn. This provided us with easier access to important raw materials and ideal harbor conditions.

An era of diversification

In the three decades following the Second World War, Hydro rebuilt itself into an industrial conglomerate, expanding into a number of new businesses in Norway. In 1951, we began producing magnesium metal and polyvinyl chloride at Porsgrunn. We constructed the Røldal-Suldal hydroelectric power plant to provide energy for our operations at Karmøy, and opened an aluminium reduction and semi-fabricating plant there in 1967.

In order to secure stable access to raw materials and energy for our fertilizer operations, we investigated opportunities to participate in oil and gas production in the middle of the 1960s. After several years, Hydro and its partners discovered oil and gas in the Ekofisk and Frigg fields on the Norwegian Continental Shelf. Our experience in the chemical process industry and abundant natural gas liquids resources provided the foundation for investments in the petrochemicals industry in Norway. In 1978, we commenced production of ethylene and vinyl chloride monomer.

During this time, we also pioneered new labor relations practices aimed at democratizing the workplace and increasing the cooperation between management and employees, leading to a spirit of collaboration which continues to define the company today.

Decades of global expansion

Hydro expanded globally in the 1980s. We developed our fertilizer operations into one of the leading suppliers in Europe. We also entered a new era as an oil company, becoming operator of the Oseberg offshore oil field. Research continued to drive our development as we introduced new

technologies for deep-water oil and gas production and horizontal drilling. In 1986-87, we acquired the Norwegian state-owned aluminium company, Årdal og Sunndal Verk, in addition to several European aluminium extrusion plants from Alcan and Alcoa, establishing Hydro Aluminium as a major business within Hydro and an important player in the European aluminium industry.

Later, we developed our businesses further through substantial acquisitions, including the German company VAW Aluminium in 2002. We also invested significant capital towards the expansion of existing alumina and aluminium production facilities, including our fully owned Sunndal primary metal plant in Norway, the part-owned Alouette smelter in Canada and three expansions of the Alunorte alumina refinery in Brazil. This was followed by the decision to participate in the construction of the Qatalum smelter in Qatar. In 2007, Hydro completed the first phase of the giant Ormen Lange gas field, considered one of the largest industrial projects ever undertaken in Norway. A significant portion of the expansion of these businesses was financed through the sale of non-core operations.

Throughout this period, we have focused on continuously improving the way we conduct our business. We have improved working conditions and reduced the number of accidents for own employees and contractors. We have also worked to reduce the negative impact of our activities on the communities where we operate and the broader society in general.

Restructuring and concentration

The first decade of the new millennium encompassed a major restructuring of our downstream aluminium operations, the closure of higher cost smelters, and ultimately, the transformation of Hydro into a focused aluminium company. In 2004, we demerged our fertilizer business through the creation of Yara, and we merged Hydro's petroleum activities with Statoil in 2007.

During this period, Hydro invested roughly NOK 18 billion in its aluminium and energy businesses in Norway, including NOK 11 billion in its Norwegian smelter system, NOK 2.2 billion upgrading and expanding its hydropower production operations and NOK 3 billion in research, development and production support relating to both its upstream and downstream aluminium operations. As a result, annual electrolysis production in Norway increased from 760,000 mt to about 900,000 mt, including the shutdown of roughly 250,000 mt of older, higher cost and higher emission capacity.

Transforming transactions

In 2011, Hydro transformed its business through the acquisition of the aluminium assets of Vale SA, securing its position in bauxite and alumina and lifting the company to the top tier in the aluminium industry. Combining Vale Aluminium with Hydro has resulted in a stronger company, fully integrated into bauxite, with a long alumina position which is a preferred position in a resource constrained world.

In 2013, Hydro merged its aluminium extrusion, building systems and tubing businesses with Orkla ASA's fully owned extrusion company, Sapa, forming a 50/50 percent joint venture. In 2017, Hydro acquired Orkla's 50 percent interest in Sapa, securing full ownership of the global leader in extruded aluminium solutions. The new business area Extruded Solutions has significant operations in Europe, North America, South America and Asia.

For further information, see www.hydro.com/en/about-hydro/our-history

Operating segments

Hydro is a fully integrated aluminium company with attractive equity positions in bauxite, alumina and power, the

most important raw materials in the production of primary metal. We are one of the world's largest producers and suppliers of alumina and primary aluminium. Alumina production well in excess of our own requirements gives us a favorable market position. Substantial self-generated hydroelectric capacity in Norway and a dedicated gas-fired plant in Qatalum, provides secure access to energy.

Downstream, Hydro is an industry leader for a range of rolled aluminium products and markets, in particular the building, packaging, lithographic and automotive sectors. Our ambition is to be recognized as the world's foremost aluminium solutions supplier, working in partnership with our customers and driving our business forward. Extruded Solutions is the leader in extruded aluminium products, with a global reach and local presence within extrusions, building systems and precision tubing.

Hydro's business is divided into six operating segments including Bauxite & Alumina, Primary Metal, Metal Markets, Rolled Products, Extruded Solutions and Energy.

Bauxite & Alumina includes our bauxite mining activities comprised of the Paragominas mine and a 5 percent interest in Mineracao Rio de Norte (MRN) ¹⁾, both located in Brazil, as well as our 92 percent interest in the Brazilian alumina

Aluminium upstream production facilities



refinery, Alunorte. These activities also include Hydro's long-term sourcing arrangements and alumina commercial operations.

Primary Metal consists of our primary aluminium production, remelting and casting activities at our wholly-owned smelters located in Norway, and Hydro's share of the primary production in partly-owned companies located in Slovakia, Qatar, Australia, Canada and Brazil.

Metal Markets includes all sales and distribution activities relating to products from our primary metal plants and operational responsibility for our stand-alone remelters. Metal Markets also includes metal sourcing and trading activities, which sources standard ingot for remelting in Hydro's remelters and primary casthouses from third parties and provides operational risk management through LME hedging activities.

Rolled Products consists of five European rolling mills including our 50 percent interest in the AluNorf rolling mill in Germany. Rolled Products also includes the Neuss primary aluminium smelter in Germany.

Extruded Solutions consists of our extrusion-based business, located mainly in Europe and the Americas, which is focused on delivering solutions to the building and construction, transportation, and engineered products industries. Extruded Solutions also includes our aluminium building systems and precision tubing activities.

Energy is responsible for managing Hydro's captive hydropower production, external power sourcing arrangements to the aluminium business and identifying and developing competitive energy solutions for Hydro worldwide.

Business and operating information

The following section includes a description of the industry developments impacting our business, our strategies and key performance targets and a description of operations for each of our business areas including key revenue and cost drivers. See section - Financial and operating review - later in this report for comparative production and sales volume information for our different business areas.

Hydro has zero tolerance for corruption and supports the principles underlying the Universal Declaration of Human Rights, the UN Global Compact and ILO's eight core conventions. Hydro is also committed and has an ambition to avoid all serious accidents, in particular, in all our operations worldwide. Our compliance system requires

adherence with external laws and regulations as well as internal steering documents and is based on prevention, detection, reporting and responding. We are proactive in securing that we interact with counterparties that also adhere with external laws and regulations. TRI rate (total recordable injuries per million hours worked) is a key metric we use for setting targets and monitoring our overall safety performance. See Viability performance section later in this report for more information on our approach, key performance targets and description of programs and activities relating to these issues.

Bauxite & Alumina

Industry overview - B&A

Bauxite rock is composed mainly of aluminium hydroxide bearing ore minerals, with accompanying accessory minerals commonly containing iron oxides and hydroxides, and silica as clay and/or quartz. The three main ore minerals are gibbsite, boehmite, and diasporite. Their relative abundances in a particular bauxite source will determine alumina processing characteristics, and consequently will impact on the design, capital and operating costs of a related alumina refinery. In general, it can be stated that gibbsitic bauxite is preferred, as it can be digested at lower temperature and pressure than boehmitic or diasporic bauxites. Most bauxites occur within a lateritic crust formed by intense tropical weathering, as near-surface blanket deposits. Bauxite is typically extracted from open cut mines, and either processed at nearby refineries, or transported to distant refineries, which can add substantial logistical costs to the production of alumina. About 80 percent of alumina refining outside of China is based on integrated bauxite mines. In China, about 60 percent of alumina refining is based on integrated sources.

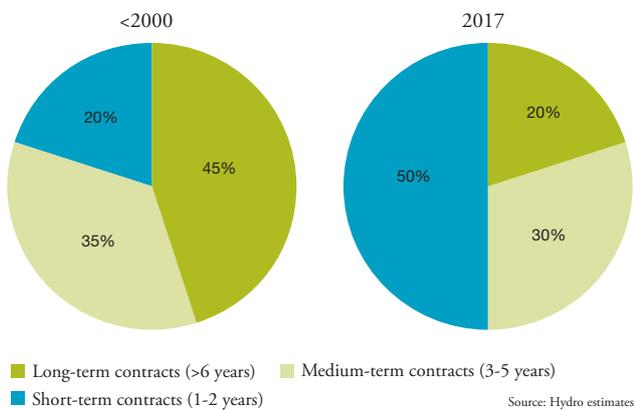
China, Australia, Brazil and Guinea accounted for 29, 29, 13 and 12 percent of global bauxite production of 316 million mt in 2017, respectively. The five largest mines outside China represented around 46 percent of the Western World bauxite production of 225 million mt.

Alumina is a significant cost element in the production of aluminium. The alumina market is competitive, but relatively few players hold a long position. China is the largest producing country representing approximately 58 percent of the global demand and capacity.

Bauxite and alumina price developments

In the alumina industry, pricing has been moving away from fixed percentages of the aluminium price to index pricing. Introduced in 2010, the Platts alumina price index reflects the fundamental supply and demand balance as well as general cost developments of the alumina market. The index continues to gain support in the industry and represents the main reference for contracts of various durations. Since 1990,

Alumina contract durations



average annual contract prices have risen from a level of around 12 percent of LME aluminium reference prices to above 17 percent in average for 2017. The Platts alumina index started the year at around USD 350 per mt and was close to USD 400 per mt at year end, or around 17 percent of LME aluminum reference price at the time.

Bauxite and alumina prices have been strongly influenced by developments in China, which is heavily dependent on imported bauxite. China's bauxite imports amounted to 68.8 million mt in 2017, 32 percent higher than the previous year. Driven by new mines coming into operation, Guinea overtook Australia as the largest supplier to China in 2017 (27.6 million mt) against 25.5 million mt for Australia. Imports from Malaysia decreased 37 percent to 4.9 million mt as a bauxite mining moratorium imposed since January 2016 was strictly enforced this year. After a three year hiatus because of an government imposed export ban, imports from Indonesia resumed in July reaching 1.3 million mt for the year. Imports from Brazil decreased 25 percent to 3.3 million mt. The price of bauxite imported into China in 2017 increased to an annual average of USD 51 per mt CIF China compared to USD 49 per mt CIF China in 2016.

Strategy and targets - B&A

In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, lead to regional flooding. Due to concerns over possible water contamination from Alunorte during this flooding, authorities have taken several measures against the alumina refinery. These include orders to reduce production by 50 percent and halt operations at its DRS2 bauxite residue deposit, which is currently under commissioning. In addition, suspending operations on one of two tailing dams at the Paragominas bauxite mine. Hydro issued a force majeure notice towards its alumina and alumina hydrate

Alumina price



customers due to the production cuts and current lack of clarity into what measures it would take to return to normal operations.

Measures are being implemented to resolve the situation at Alunorte, including establishing an internal taskforce to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

Safe and sustainable business practices

Important HSE initiatives for the coming year include process safety, increased risk awareness, safeguarding the environment, best practice sharing and improved training.

An example of initiatives is the planned project for improved handling of municipal waste in Barcarena in Brazil. The project aims to improve the working conditions for those currently involved in waste collection as well as more secure waste handling in the community. Following the extreme rainfalls in Barcarena in February 2018, we collaborate with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

In 2017, Hydro signed a Memorandum of Understanding (MoU) with Shell Brasil Petróleo LTDA, and also a Letter of Intent (LoI) with the state of Pará with the aim to replace a major part of our current fuel oil consumption at the Alunorte alumina refinery with more climate and cost efficient natural gas. A technical concept for the replacement of fuel oil with natural gas will be developed during 2018.

Improve the commercial value of our product portfolio

We will continue to optimize our global bauxite and alumina positions including sourcing arrangements aimed at reducing logistical costs and improving margins. We also intend to continue increasing our share of alumina sales volumes at index pricing as old legacy LME indexed contracts gradually expire.

Expand our bauxite and alumina capacity

Hydro has attractive positions, enabling the potential expansion of low-cost alumina refining. These include the CAP joint venture for a potential new alumina refinery and possible expansion of the Paragominas mine. Further development of these projects is mainly dependent on

ongoing developments in the balance between industry production capacity and market demand. The production levels at Paragominas and Alunorte alumina remained high in 2017. Further, a debottlenecking project is planned to increase the capacity at the Alunorte alumina refinery to 7.0 mill mt/yr by 2021.

Ambitions going forward

The key priority going forward will be to finalize and follow up the internal and external reviews of the refinery and its water treatment system, as well as realizing the announced investment to the water treatment system at Alunorte, and return operations to normal in a safe manner.

Reducing our impact on the local environment is also an important objective going forward, including continuing to reduce the gap between clearing for mining operations and rehabilitation.

Operations - B&A

Bauxite from Paragominas is mined in open pits and sorted and crushed into sizes suitable for transportation as slurry through the world's longest pipeline approximately 240

Mid-term strategic goals Bauxite & Alumina

	Ambitions	Medium-term target	Timeframe	2018 target	2017 target	2017 progress	Status
<i>Better</i>	Improve safety performance, strive for injury free environment	TRI < 2 ¹⁾	2020	TRI 1.7	1.8	TRI 1.6	●
	Realize ongoing improvement efforts <i>Better</i> Bauxite & Alumina	NOK 1.3 billion	2019	NOK 1.2 billion	NOK 1.0 billion	NOK 1.1 billion	●
	Shift alumina sales to PAX-based pricing	>85 % PAX ²⁾	2020	~75% PAX	~50% PAX	~65% PAX ³⁾	●
	Maintain and comply with the ICMS regulatory framework renewed in 2015	Stable framework conditions	Long-term	In compliance	-	In compliance	●
	Lift alumina production through stabilization and debottlenecking	7.0 mill mt/yr	2021	6.4 mill mt/yr	6.3 mill mt/yr	6.4 mill mt/yr	●
	Lift bauxite production through debottlenecking	11.0 mill mt/yr	2018	11.0 mill mt/yr	11.1 mt/yr	11.4 mill mt/yr	●
<i>Bigger</i>	Lift equity bauxite production	19 mill mt/year ⁴⁾	Long-term	NA	NA	NA	
<i>Greener</i>	Deliver on reforestation ambition	1:1	Continuous	1:1	1:1	On track ⁵⁾	●
	Deliver on reforestation ambition	Eliminate historical rehabilitation gap	2020	Continuous progress	-	On track	●
	No reportable environmental incidents	0	Long-term	0	0	0	●
	Develop plan for approval of infrastructure projects with positive impact on the social development in Barcarena	Establish project with positive impact on social development of the Barcarena municipality in Brazil			First scrap collection facility in operation	Scrap collection project ready for detailed design and installation	Project ready for design and installation

1) TRI, total recordable injuries per million hours worked, includes own employees and contractors.

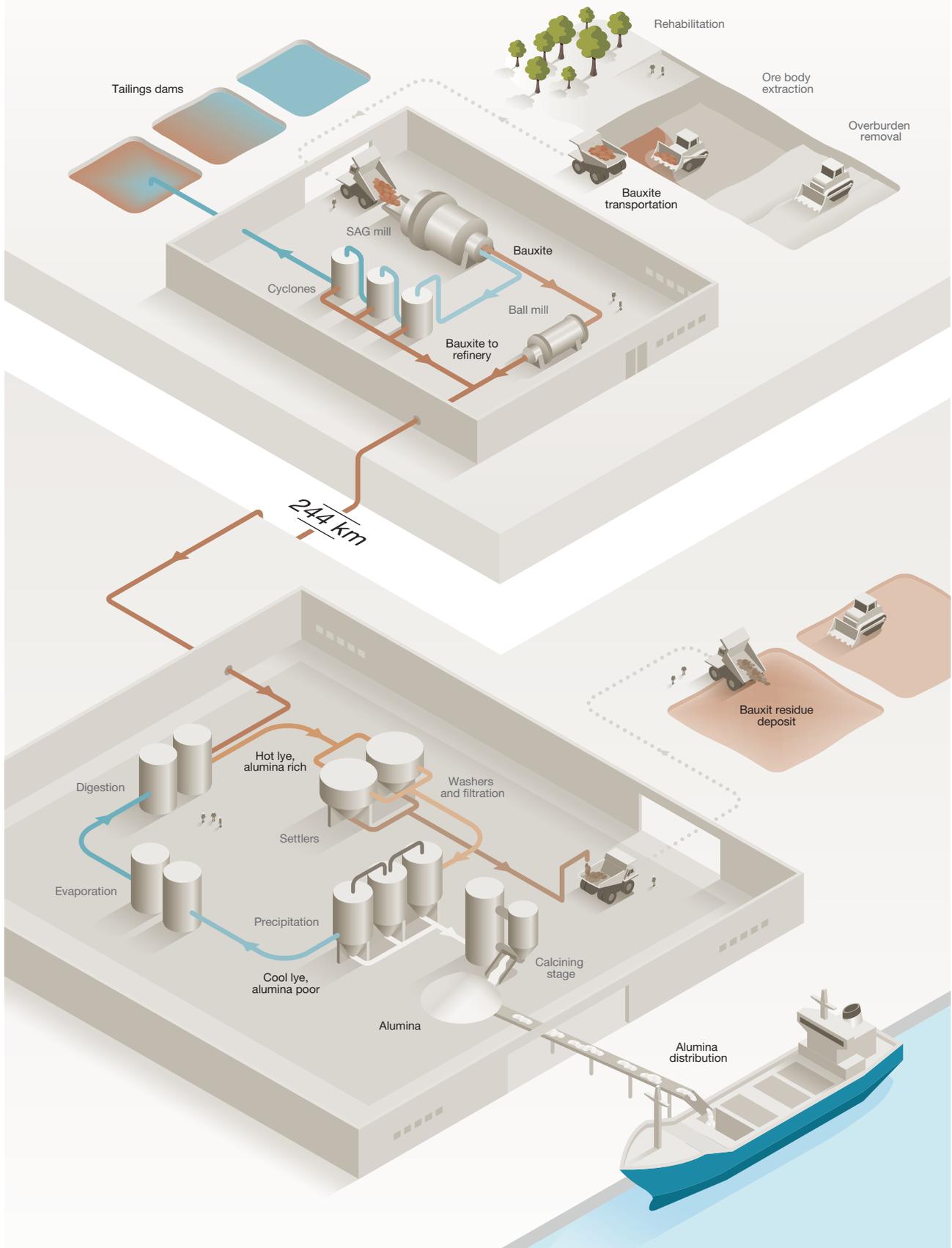
2) Based on annual sourced volumes of 2.3 million mt.

3) Based on sourcing volumes of 2.5 million mt for 2017.

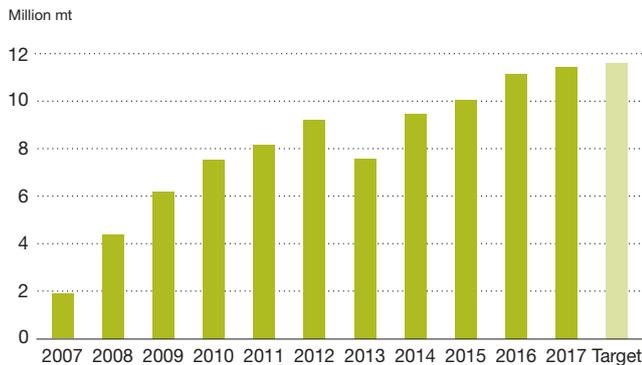
4) Provided the acquisition of a 40% stake in MRN from Vale.

5) Target revised in 2017 to 1:1 rehabilitation of areas available for rehabilitation. From 2018 the target will also cover two hydrological seasons. The revised definition takes into account the nature of the mining cycle, and the time lag is necessary to ensure quality rehabilitation to restore biodiversity.

Bauxite extraction and alumina refining in Hydro



Bauxite production

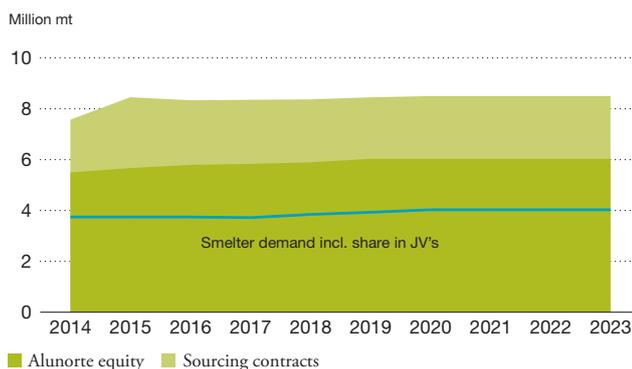


kilometers to Alunorte for refining into alumina. Bauxite from MRN is transported by vessel. Alumina processing begins by removing the water from the bauxite slurry, then mixing the bauxite with caustic soda at high temperature and pressure. The resulting mixture is pumped into a digester, where a chemical reaction dissolves the alumina. This process produces a sodium aluminate solution, which is transferred into tanks to separate impurities through settling and filtration. The cooled sodium aluminate solution is then pumped into precipitators to grow alumina crystals, which are transferred to thickening tanks and further to fluid bed calciners to remove water, producing pure alumina.

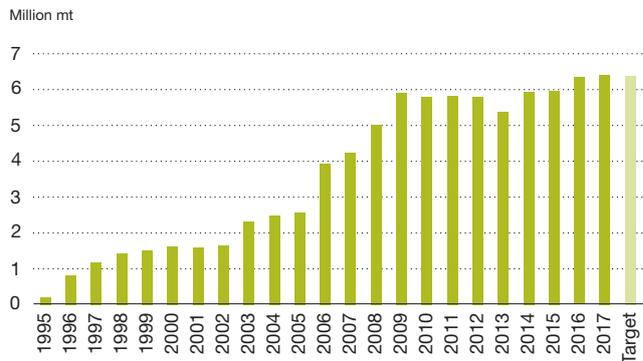
Cost and revenue drivers

The main cost drivers for bauxite are labor, maintenance/consumables, electricity and fuel for excavation equipment, representing around 75 percent of the cash cost of mining activities. Labor, the largest cost factor, accounting for about 25 percent, is influenced by Brazilian wage levels and productivity developments. Maintenance/consumables are influenced by inflation and efficiency in operations.

Alumina position



Alumina production



For alumina refining, bauxite, energy and caustic soda represent around 85 percent of cash costs. Energy costs are a mix of fuel, coal and electricity and represent around 30 percent of the total costs. Caustic soda represents around 15 percent of cash costs. In 2017, the prices of the main raw materials including fuel, coal, electricity and caustic soda increased compared to the previous year. Bauxite purchases from Paragominas, and under off-take agreements from MRN, are based on prices partly linked to LME prices and alumina market prices. Optimization of the energy mix for Alunorte is the major factor to achieve the targets related to the *Better Bauxite & Alumina* improvement ambition.

Historically, alumina has been primarily sold under medium and long-term contracts at prices referenced to the LME. The realized alumina price, the key revenue driver, has been volatile during 2017 representing between 14.8 and 20.0 percent of LME reference prices for Hydro's combined internal and external sales portfolio. Hydro has been replacing expiring alumina sales contracts with increased sales volumes at index pricing and we intend to further increase our share of volumes at index pricing as old, legacy contracts continue to expire.

Competitive strengths

- Paragominas, one of the world's largest bauxite mines with a current reserve life of several decades
- Significant bauxite resources beyond current reserves
- High quality Gibbsite bauxite delivering refining benefits in the form of lower investment and operating costs
- Unique integrated pipeline generating increasing economies of scale with higher production and potential expansions. Low environmental impact
- Alunorte, cost effective alumina refinery
- Consistent high quality alumina
- Long alumina position with shorter contract durations increasing potential for greater value creation as more

- volumes become available for pricing on index
- Expansion opportunities for bauxite mining and alumina refining

Bauxite mining

Paragominas is located in the Brazilian state of Pará. The mine produced 11.4 million metric tonnes in 2017, 14-percent moisture bauxite on an annual basis, which represents about 3 percent of global capacity. Operations include a mining fleet of about 200 vehicles and around 1,400 employees.

Operations at Paragominas commenced in the first quarter of 2007, and began supplying raw material to the Alunorte alumina refinery at the same time. An expansion - Paragominas II - was completed in the second quarter of 2008. The potential for further expansion is estimated up to 15 million mt in total.

The site is connected to a 244-kilometer slurry pipeline with an annual capacity of 15 million mt. It is the only bauxite slurry pipeline in the world, and has significant integration advantages combined with a very low environmental impact.

Paragominas supplies all of its production to Alunorte. In 2017, the mine provided about 72 percent of Alunorte's bauxite requirements. The remainder is sourced from Mineração Rio do Norte (MRN), which Hydro has a 5 percent ownership interest in and off-take agreements with Vale for a further 40 percent of the volume produced by MRN¹⁾. The MRN mine is one of the three largest and most efficient bauxite mines world-wide and the largest in Brazil.

Alumina refining

Hydro's major alumina asset is its 92 percent interest in the Alunorte alumina refinery. Alunorte produced 6.4 million mt of alumina in 2017. The Alunorte refinery is competitive due to the high quality of its alumina, advantages in scale and technology, relatively low energy consumption and labor costs. The plant has several cost advantages, including an efficient energy mix of heavy fuel oil and coal, competitive caustic soda consumption due to high quality bauxite and a potential for lower transport costs through higher pipeline throughput.

Companhia de Alumina do Para (CAP), a potential new alumina refinery to be located in Barcarena, close to Alunorte, has been under evaluation for development in a joint venture between Hydro and Dubal Holding LLC (Hydro's share, 81 percent). The technical design for the refinery was reviewed in 2016 resulting in further planned improvements in performance and costs. The new design has an initial annual capacity of 2.6 million mt, with the potential for future expansions of up to 7.4 million mt.

Further progress in this project is mainly dependent on the balance between industry production capacity and market demand.

Commercial operations

Hydro has a long position in bauxite of 3-4 million mt and in alumina of approximately 2-3 million mt. We are pricing bauxite on its own fundamentals to reflect the superior Brazilian quality. As mentioned above, in addition to Paragominas and our equity interests in MRN bauxite mine, we have volume off-take agreements for Vale's 40 percent interest in MRN, which amounted to 7.6 million mt in 2017. The excess bauxite not consumed in Alunorte is sold to third parties.

In addition to Alunorte, we buy alumina from a number of external sources. The main external source is Hydro's contract with Rio Tinto Alcan (RTA) for the supply of 900,000 mt of alumina annually until 2030. In addition, we buy and sell alumina in order to optimize our physical alumina portfolio on a short and medium-term basis.

See section later in this report Financial review, Bauxite & Alumina for external volumes of bauxite and alumina purchased and volumes of alumina sold.

Technology and innovation

Hydro is continuously working to optimize its bauxite mining and beneficiation processes and the alumina refining process. Our R&D efforts are directed at minimizing the economic impact of the relatively high kaolinite content of Amazonian bauxite. This is expected to result in a reduction in the operating cost at Alunorte in the future, and increase the amount of economically viable bauxite resources.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



The Paragominas mine is continuously working to optimize its mining technology.

Alunorte uses dry stacking technology for disposal of bauxite residue, also known as red mud. Hydro is in the process of transforming to enhanced dry stacking technology for disposing of bauxite residue. The technology and lower moisture content allows for storage at steeper slopes, reducing the disposal area requirements and thus also the relative environmental footprint. Hydro also participates in international collaboration projects investigating possibilities to use bauxite residue as a resource.

Environment

The main environmental issues in Bauxite & Alumina relate to deforestation, waste disposal, greenhouse gas emissions and water management.



Hydro's bauxite mining at Paragominas involves removing vegetation and a layer of topsoil and overburden to extract bauxite deposits eight to ten meters below the surface. As a result, mining operations disturb relatively large areas. Hydro's Paragominas mine is located in an area that is normally recognized as the deforestation belt around the central Amazon region. In the municipality of Paragominas there has been a reduction in forest area by more than 30 percent over a period of almost 20 years. Much of this occurred before the establishment of the Paragominas mine, and the area had been exposed to selective logging and clear cutting before commencement of operations in 2007. Reforestation and wildlife management at Paragominas are core elements of our sustainability strategy.

In 2017, we redefined our 1:1 rehabilitation target for the Paragominas bauxite mine. The new definition takes into account the nature of the mining and rehabilitation cycles, and that land has to set aside for temporary infrastructure in order to safely operate the mine. To increase our knowledge and to secure a science-based approach, the Biodiversity Research Consortium Brazil-Norway (BRC) was established in 2013, please see Resource management under Viability Performance in this report.

Solids waste production includes significant amounts of residues from the bauxite beneficiation process (bauxite tailings) and from alumina refining (bauxite residue, also known as red mud). Tailings are stored in dams where the particles settle. Separated water is clarified and reused in the process. Dams are systematically inspected by Hydro and third parties including the Norwegian Geotechnical Institute (NGI). The last NGI visit to Paragominas and Alunorte took

place in 2016 and resulted in an action plan to secure the long-term viability of the tailings dams and bauxite residue storage areas.

The new tailings system in Paragominas was completed in 2017. The old system is constructed in a shallow valley. The new tailings dams are situated on a plateau where the mining has been finalized. The closure plan for the tailings dams was last revised in 2015, and Hydro expects to start the rehabilitation process after the tailings dams has settled. This takes a minimum of five years.

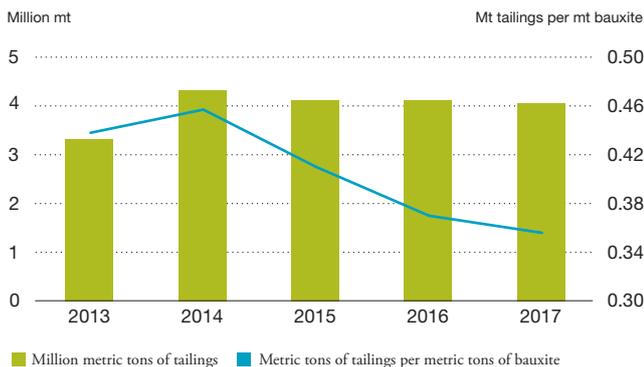
Disposal of bauxite residue at Alunorte is challenging due to large volumes and the alkaline nature of the liquid component of the residue. The residue is washed with water to lower the alkalinity and recover caustic soda for reuse. For more information, please see Technology and innovation above.

In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, lead to regional flooding. Surveillance authorities inspected Alunorte's alumina refinery and surrounding areas, following reports of possible leakage and water contamination. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

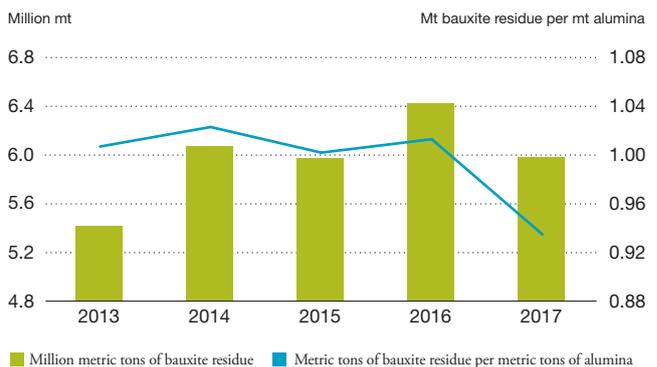
After the extreme rain event and the following external inspections and internal reviews, instances of unlicensed discharges of contaminated rain and surface water have been identified. The plant has notified authorities about the discharges which were discovered by the plant.

Measures are being implemented to resolve the situation at Alunorte, including establishing an internal task-force to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the

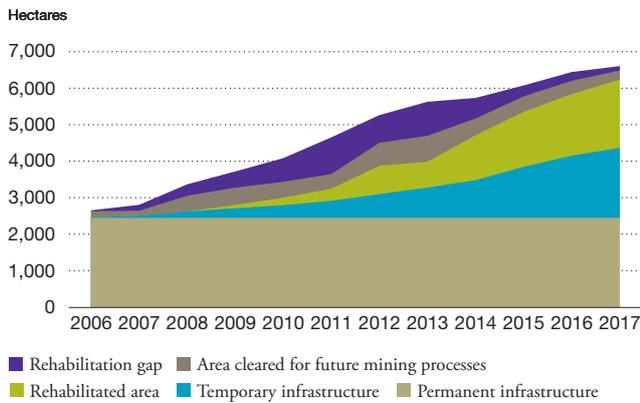
Tailings from bauxite production



Bauxite residue from alumina production



Land use and rehabilitation – Paragominas



Permanent infrastructure includes areas related to administrative buildings, industrial facilities, tailings dams, the pipeline to Alunorte and permanent roads. Temporary infrastructure includes among other things temporary roads and areas dedicated for new tailings dams.

water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions.

Emissions from Hydro’s Alunorte refinery relate mainly to steam generation which relies on coal and heavy fuel oil. The plant emits about 4.0 million mt of CO2 equivalents per year.

People

Bauxite & Alumina had 3,632 permanent and 211 temporary employees in its consolidated activities at the end of 2017, including trainees, apprentices and employees on leave. We strive for a safe working environment as a fundamental right of all employees. We believe that this, together with an engaged workforce, improves efficiency and results in lower operating costs. Employee development is also an important factor. Our internal performance and development process, My Way, and employee engagement index Hydro Monitor, are important tools to enhance our people and organization performance and development. See the Viability performance section later in this report for more information. In 2017, 99 percent of all employees participated in My Way.

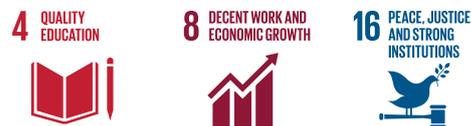
Our Bauxite & Alumina Business System (BABS) has been used as the basis for implementing a standardized production system in our operations. The system is based on Primary Metals AMBS system and promotes employee empowerment and development and facilitates the sharing of best practices throughout the organization. Implementation of BABS was

an important initiative underlying the From B to A improvement program and will continue to support our new improvement ambitions.

Diversity in all its forms is appreciated and valued throughout our organization. We regularly assess the status of our diversity efforts and target areas for improvement to reach our 2020 diversity targets. Much progress has been made in areas related to competence and cultural background. We continuously strive to improve our representation of females at all levels in the organization through our recruiting strategies and efforts to create a workplace with opportunities that appeal to both genders.

Society

Bauxite & Alumina’s operations are located in the state of Pará, in northern Brazil, one of the least developed regions in the country. As one of the largest industrial companies in the state, Hydro is working to improve transparency and stakeholder dialogue with the local community. The bauxite pipeline from Paragominas to Alunorte crosses areas inhabited by traditional Quilombola groups in the Jambuacu Territory in Brazil. Hydro has established a dialogue process with representatives of the group and invested additional resources to improve the interaction with the group. Still, there are potential conflicts related to certain Quilombola groups.



In Barcarena and Paragominas, as part of a stakeholder engagement process, Hydro has launched a program, aiming to support actions to promote positive social impact and sharing our core values among communities where we do operate through active participation of our employees. In addition, an “open house” initiative was established in Barcarena where representatives from the communities have the opportunity to visit Alunorte and Albrás and get to know their social and environmental processes. The initiative is complemented by the Itinerant Dialogue Process, where Hydro representatives visit communities to listen to their requests, claims, suggestions and present environmental performance results, social projects and human resources programs.

Hydro’s commitment to safe and environmentally sound operations is universal and absolute. We are concerned about the situation and for the people and local communities of Barcarena affected by the flooding in February 2018.

Regardless of the cause, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

The current grievance mechanism for Hydro's activities in Brazil was introduced in 2014. A corporate-wide solution is currently under development. The efficiency of the mechanism improved significantly in 2016, and work is ongoing to make it further known. In Barcarena, the location of the Alunorte alumina refinery and Hydro's Albras smelter, an inter-sectoral forum has been established to improve communications with the local community. Please see the Viability Performance section later in this report for further information.

Within Bauxite & Alumina's supply chain, the most important risks include corruption, fraud and inappropriate working conditions. Our sustainability metric is comprised of several elements including promoting local content, mitigating social risk in the supply chain and screening all suppliers as part of a qualification process. Our goal is to complete the qualification of all suppliers by 2020.

Primary Metal

Industry overview - PM

The basic raw material for aluminium is bauxite which is refined into alumina. Aluminium smelting is a capital-intensive, technology-driven industry. Energy represents approximately 50 percent of the costs throughout the value

chain. As the world's largest consumer and producer of aluminium, China has a significant impact on market fundamentals. Global primary production amounted to roughly 64 million mt in 2017. In 2017, China represented 54 percent of worldwide primary aluminium consumption and 57 percent of corresponding production. India and the Middle East are also growing in importance in the production of aluminium.

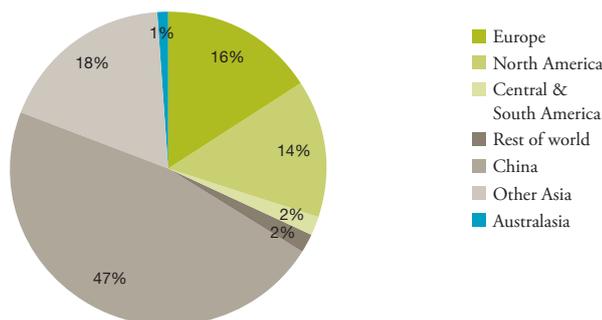
High quality aluminium products are also derived from remelting and recycling of aluminium scrap. Aluminium scrap is generated both in the production (pre-consumer) and use (post-consumer) of aluminium products. Recycling of post-consumer scrap requires about 5 percent of the energy required for production of electrolysis metal. Globally almost 20 percent of aluminium products are made from post-consumer scrap. Around 70-75 percent of all aluminium produced since the Hall-Heroult process was discovered in 1886 is still in use²⁾.

Aluminium is used in a variety of applications in several industries. The major consumer segments are transportation, building and construction, packaging and foil and electrical applications. The major consuming areas are China, North America, Western Europe, Japan and the rest of Asia.

Demand for aluminium products in mature markets like North America and Europe is normally in line with economic developments, although with greater volatility. However, substitution for steel and other metals by aluminium, in particular for automotive applications, contributes to higher growth levels and is a key fundamental driver underlying increasing demand in aluminium markets. In recent years global demand has exceeded the growth in GDP and is expected to continue to do so in the medium term. Increased consumer demand and continued infrastructure investment

Global aluminium consumption* by region 2017

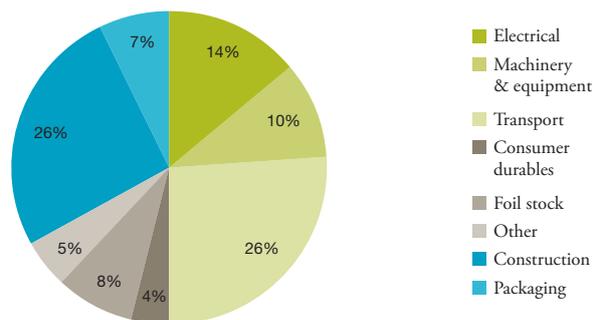
Total market 87.5 million mt



* Consist of semi fabricated products (included recycled aluminium)
Source: CRU LT 2017/Hydro

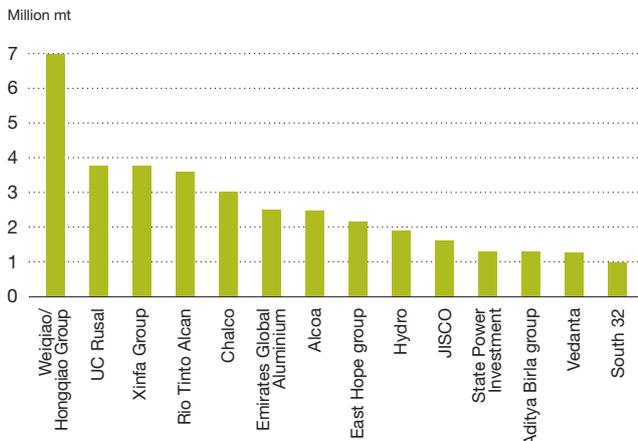
Global aluminium consumption* by end use 2017

Total market 87.5 million mt



* Consist of semi fabricated products (included recycled aluminium)
Source: CRU LT 2017/Hydro

Top world primary aluminium producers in 2017



Source: CRU LT/Hydro

in China are expected to drive global demand growth in primary metal in the range of 4 to 5 percent for 2018 and around 3 percent over the coming 10 years, despite an expected lower pace of global economic development compared to the previous decade. Primary demand is expected to grow 3 to 4 percent in the world outside China in 2018, with North America leading the way driven by macroeconomic improvements and increasing market penetration of aluminium components within the transportation market segments.

Although growth in the Chinese economy is slowing, the growth in aluminium consumption continues to outpace most other commodities. However, continued capacity increases have resulted in an oversupply in China leading to exports of semi-fabricated products above historical levels for the year.

Structural developments

The 10 largest aluminium companies in the world represent more than 50 percent of global aluminium production, and the 10 largest Chinese aluminium companies now account for around 37 percent of the world primary production in 2017. Chinese producers focus primarily on supplying the Chinese markets. Private companies in China have grown significantly in the last several years. The Hongqiao group in particular has reached production of almost 7 million tons in 2017. The group has become the world's largest aluminium producer. Other private Chinese companies such as Xinfa and the East Hope group have also shown strong growth. In recent years also state-owned companies in China such as Chalco have increased in size, due to restructuring efforts, incentivized partly through policies for the Chinese state-owned companies. Outside China, the strongest production growth has been among companies active in India, in

Aluminium price



particular Vedanta, and to a minor degree the Middle East. Alcoa has reduced their production due to smelter closures, in particular in North America.

Alcoa announced a plan to establish separate businesses for their upstream and downstream operations in 2015. In 2016, after 128 years of operating as a vertically integrated company, Alcoa consequently separated its mining/refining/smelting and power businesses (retaining the name "Alcoa") from its fabrication businesses, now known as "Arconic."

In 2017, Hydro followed its strategy of Better, Bigger, Greener, and integrated vertically into the extrusion business, thus becoming the largest global integrated aluminium company in the world. As a primary aluminium producer Hydro maintained its position as the fifth largest producer outside of China, and ranked ninth globally in terms of annual primary aluminium production. The largest producer outside China continued to be Rusal, followed by Rio Tinto Alcan and Alcoa.

Aluminium price developments

Primary aluminium is traded on several metal exchanges, but primarily the London Metal Exchange (LME). The Shanghai Futures Exchange (SHFE) has grown in importance for international trade of standard ingots produced in China. Prices quoted on the SHFE include 17 percent value added tax. China has an export tax of 15 percent on primary aluminium, China also has a 13-15 percent VAT tax rebate on the export of semi-fabricated and finished aluminium products. In May 2015, the export tax was eliminated for several alloyed products while being maintained for pure primary aluminium ingots. No changes were made for aluminium and aluminium products during 2017. This

development implies that China intends to continue to discourage the export of pure primary aluminum while encouraging the export of higher value-added products.

LME aluminium prices are heavily influenced by macroeconomic and market developments. Prices have been volatile in the period following the historic decline during the financial crisis of 2008/2009. Through 2015 prices remained at a level that resulted in smelter closures in the US, but also in China. Since early 2016 prices have increased, and this trend continued in 2017, although with periods of minor deviations. During 2017 raw material costs, i.a. alumina, but also carbon and energy increased. Combined with a stricter capacity control in China, this discouraged potential capacity expansions during 2017. The capacity control measures resulted in capacity, mainly privately owned, being closed due to classification as so called “illegal expansions”, or because of contribution to winter pollution. (See *Market developments in the Financial and operating review section of this report for further information on price developments for 2017.*)

Premiums outside China affect the incentive for Chinese exports. After a stabilization of export levels in 2016, the semis export has been growing again in 2017 seen on a yearly basis. Arbitrage opportunities are expected to continue to occur in the future, and will influence the size of exports of semi-fabricated products from China, and hence also metal prices going forward. There has been an increase in trade- and anti-dumping cases following increases in Chinese exports of semi-fabricated products. Significant uncertainty remains with regard to trade restrictions possibly being implemented during 2018.

China is still working actively to develop new domestic applications for aluminium, to make use of its properties and to reduce the overcapacity, such as applications within transport/railways. See the *Risk review section in the Board of Directors' report for the discussion on our exposure to competition from China.*

Cost developments

World average production costs (business operating costs) increased in 2017 primarily due to higher operating costs, both in China and outside China. Operating costs increased due to higher costs for alumina, power, labor and carbon in particular. Currency movements also affected the relative position of companies on the cost curve. In the last part of the year the alumina prices increased considerably and resulted in a new pressure on profitability for the least competitive smelters, typically located in China.

Strategy and targets - PM

A key ongoing strategic focus for Primary Metal is the continuous improvement of the efficiency of our smelter

system, while constantly addressing the cost challenges facing our business. We have a strong commitment to ensuring a safe work environment and a highly motivated and engaged work force. In order to secure the viability of our operations over time, we intend to focus on business opportunities that enhance our cost position. We will also maintain our technological leadership, which contributes to lower operating costs, reduced emissions, and ensures our attractiveness as a partner for world-class projects within an industry with sound long-term fundamentals.

Maintain our focus on safe, sustainable business operations

Primary Metal focus on key activities to ensure safe and efficient operations including systematic HSE training of operators and managers, and regular risk assessment of operator tasks and the work environment. We monitor and continually strive to reduce greenhouse gas emissions and waste to landfill. As part of our strategic workforce planning, we aim to recruit competent resources to secure future requirements for managers and technical specialists.

Further improve our average smelter-cost position

Primary Metals core strategy has been the continuous improvement of our smelter portfolio. We are targeting annual improvements for our entire smelter portfolio of NOK 1 billion under the "Better Primary Metal" improvement ambition by the end of 2019, compared to baseline 2015. This includes increasing production capacity at our existing smelters through proven technological developments in addition to continuous operational improvements, and fixed and variable cost reductions. During 2017, Primary Metal launched targeted Industry 4.0 initiatives, focusing on advanced analytics, automation, robotics, and digital and predictive maintenance. These efforts aim at enabling further improvements from digital initiatives.

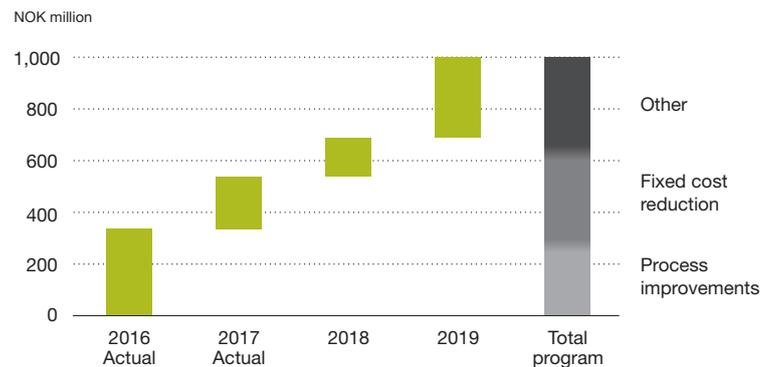
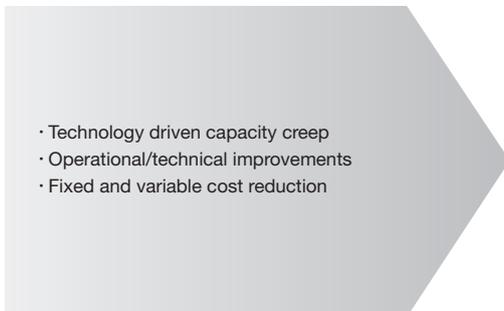
CRU global business operating cost curve by smelter



Source: Republished under license from CRU International Ltd

Primary Metal improvement ambition

Improvement categories



Optimize our position in alumina, power, carbon and other key raw materials

Primary Metal source the majority of its alumina from Bauxite and Alumina's equity position and Energy's captive power position with roughly two-thirds of our electricity usage based on hydro-power. We are continually working to secure competitive power arrangements as long-term contracts expire. We will also continue to focus on the procurement and supplier portfolio for carbon and other key raw material requirements.

Advance our operational excellence and technological leadership

Primary Metal focus on extracting measurable benefits from the application of our Aluminium Metal Business System (AMBS), a methodology designed to ensure best practices and operating efficiencies across our portfolio. AMBS is a key enabler underlying our improvement efforts and incremental increases in our production volumes. Primary Metal is also developing new proprietary smelting technology with the aim to improve our cost competitiveness, strengthen our environmental standards and support our long-term growth

Mid-term strategic goals Primary Metal (Including Metal Markets)

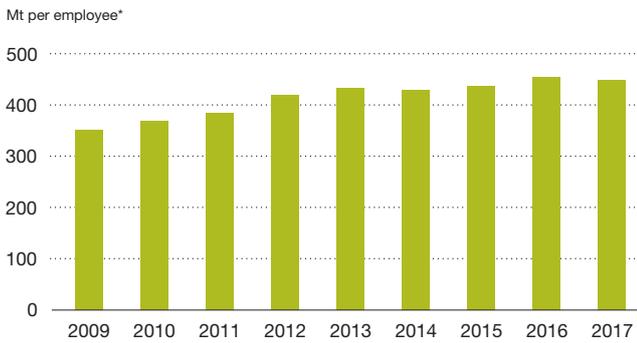
	Ambitions	Medium-term target	Timeframe	2018 target	2017 target	2017 progress	Status
<i>Better</i>	Improve safety performance, strive for injury free environment	TRI < 2 ¹⁾	2020	2.0	2.0	3.3	●
	Realize ongoing improvement efforts <i>Better Primary Metal</i>	1 BNOK	2019	690 MNOK	640 MNOK	550 MNOK	●
	Verify world's most energy efficient primary technology, including spin-off elements, with the Karmøy technology pilot	Start production Q4 2017	2017	100 % complete	100 % complete	95 % complete	●
<i>Bigger</i>	Realize technology-driven smelter capacity creep	200,000 mt/yr	2025	43,000 mt/yr	44,000 mt/yr	32,000 mt/yr	●
	Complete implementation of new AFM casting technology		2017		Complete installation of AFM technology	Installation of AFM moulds completed	●
<i>Greener</i>	Continued improvement of exposure to work environment factors ²⁾	5 % annual improvement	Long-term	5 %	5 %	5 %	●
	Reduce CO ₂ emissions / mt aluminium from electrolysis ³⁾	EU benchmark	Long-term	1.58	1.57	1.59	●
	Increase post-consumer and lower quality scrap recycling utilizing current casthouse capacity	150,000 mt/yr	2020	100,000 mt/yr	98,000 mt/yr	96,000 mt/yr	●

1) TRI, total recordable injuries per million hours worked, includes combined performance for Primary Metal and Metal Markets. TRI includes own employees and contractors.

2) Noise, dust, chemicals, ergonomics, heat/cold etc.

3) The figure might be subject to minor change following final verification by authorized third party according to EU ETS regulation.

Strong performance culture



* Includes all permanent employees within the Primary Metal business area

ambitions. This includes the 75,000 mt Karmøy technology pilot plant utilizing our next generation technology, HAL4e, targeting an energy consumption of 12.3 kWh/kg. Experience gained from the pilot is expected to contribute to further incremental capacity increases in our existing portfolio and productivity improvements.

Focus on selective growth projects

Primary Metals growth ambitions are directed toward projects with the potential to improve Hydro's cost position and smelter portfolio, and at the same time, maintain a strong focus on sustainable development. The Karmøy pilot project started metal production in January 2018. The pilot plant can serve as basis for a potential future expansion of primary production in Norway. During 2017, Hydro made an investment decision to upgrade and start up the second production line at Hydro Husnes in Norway in 2020, increasing production by around 95 000 mt. In February 2018, Hydro made a binding offer to acquire Rio Tinto's 100 percent share of Icelandic aluminium plant ISAL. The offer also includes the Dutch anode facility Aluchemie and Swedish aluminium fluoride plant Alufluor. Completion of the transaction is subject to approval from relevant competition authorities, and is expected in the first half of 2018.

Ambitions going forward

Hydro has the ambition to continuously strengthen its smelter portfolio maintaining a strong emphasis on sustainable cost development. We will continue to focus on lean smelter operations, operational excellence and safety. The ongoing development of next-generation technology, HAL4e, will provide a strong technological basis for continued organic growth, increased efficiency and lower emissions.

Operations - PM

Hydro's primary aluminium plants have reduction facilities with pot lines and casthouses, where liquid and remelted aluminium is cast to form value-added products such as extrusion ingot, primary foundry alloys, sheet ingot and wire rod, in addition to standard ingot.

Cost and revenue drivers

The main cost drivers for the production of primary aluminium include alumina, power and carbon, which together comprise about 80 percent of the cash costs of electrolysis metal. Approximately two metric tons of alumina are required to produce one metric ton of aluminium, representing about 35-40 percent of the production cost of primary aluminium. Energy represents on average about 25-30 percent of the operating costs. Carbon anodes consumed in the smelting process account for approximately 15-20 percent of the total production cost of primary aluminium.

Realized aluminium prices are the most important revenue driver. Prices are fixed on average 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.

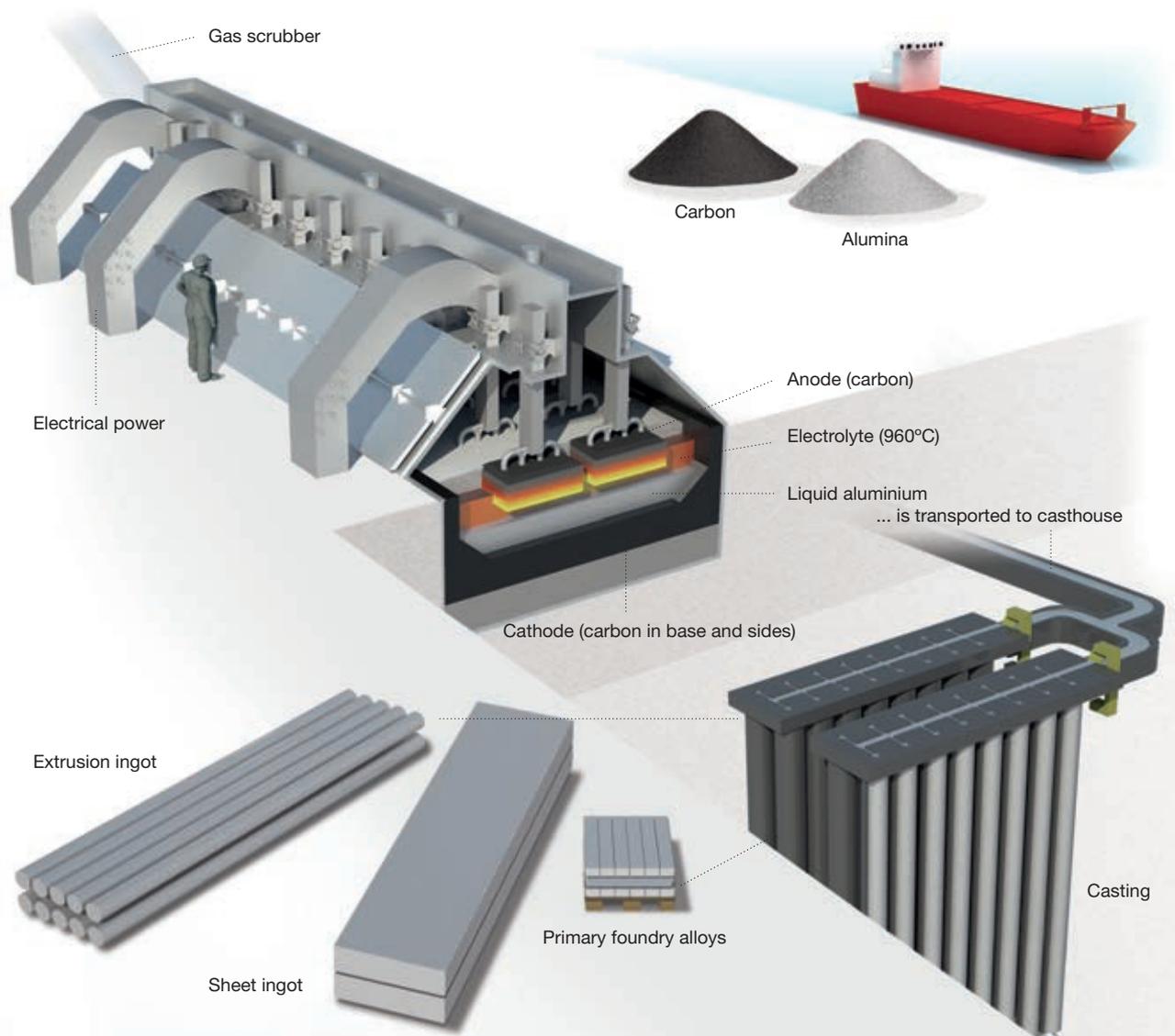
Competitive strengths

- Worldwide production network of modern, cost efficient primary aluminium facilities including the Norwegian plant in Sunndal, which is the largest and most modern primary metal plant in Europe, and Qatalum, our world-class smelter in Qatar which has a very competitive position in the first quartile of the industry's cost curve
- Competitive position on the industry cash-cost curve
- Culture of continuous improvement and solid track record of continually upgrading efficiency of smelter portfolio
- Most primary aluminium output sold in the form of value-added casthouse products
- Captive alumina position with more than 100 percent coverage
- Robust power position, largely based on hydro power. Substantial coverage of current production until 2030 and beyond
- Technological leadership and world-class smelter technology

Aluminium smelter system

Hydro is one of the world's largest producers of primary aluminium, with installed capacity in 10³ wholly or partly owned plants in 2017. In 2017, we produced around 2.1 million mt of primary aluminium, which is around 95 kmt below full capacity, affected by the partial curtailment at the Husnes plant in Norway. An investment decision to upgrade

Aluminium smelting process



Primary aluminium is produced in reduction plants where pure aluminium is formed from alumina by an electrolytic process. This process is carried out in electrolytic cells, in which the carbon cathode placed in the bottom of the cells forms the negative electrode. Anodes, which are made of carbon, are consumed during the electrolytic process when the anode reacts with the oxygen in the alumina to form CO_2 . The process requires electric energy, about 14 kWh per kilo aluminium produced in modern production lines.

and restart the curtailed capacity at Husnes was made in 2017, and first metal is expected in the first half of 2020. See the section, Financial and operating performance, for actual electrolysis and casthouse production for the years 2017 and 2016.

Internal supply contracts between our hydro power production operations and our aluminium metal business covered about half of the energy consumption of our wholly owned Norwegian smelters in 2017. The remainder was mainly covered by an external supply contract with Statkraft, a Norwegian electricity company. The contract will expire in 2020.

Hydro has entered into various new power supply contracts, adding up to a total annual supply of 6.36 TWh for the period 2021-2030, 2.97 TWh for the period 2031-2035, and 2.68 TWh for the period 2036-2039, securing a significant part of the power consumption required by our Norwegian smelters for these periods.

Electricity for Qatalum is provided by an integrated natural gas-fired power plant supplied with gas by Hydro's joint venture partner, Qatar Petroleum. Albras purchases electricity from the Tucuruí hydroelectric power plant under a long-term agreement with Eletronorte. Alouette, Hydro's part-owned aluminium plant in Canada, purchased electricity from the supplier Hydro Quebec. In 2016, Alouette signed a

Plant	Country	Employees (per Dec. 31)	Electrolysis capacity (000 mt) ^{1,2)}	Casthouse capacity (000 mt)	Main products	Key characteristics ³⁾
Karmøy	Norway	489	271	370	extrusion ingot, wire rod	<ul style="list-style-type: none"> Two prebake lines R&D center and rolling mill
Årdal	Norway	530	199	230	sheet ingot, foundry alloys ⁴⁾	<ul style="list-style-type: none"> Two prebake lines Substantial anode production Technology and competence center
Sunddal	Norway	676	407	525	extrusion ingot, foundry alloys	<ul style="list-style-type: none"> Two prebake lines Largest and most modern plant in Western Europe R&D center metallurgy and casting
Høyanger	Norway	160	66	120	sheet ingot	<ul style="list-style-type: none"> One prebake line
Husnes	Norway	245	189 ⁵⁾	200	extrusion ingot	<ul style="list-style-type: none"> 100% Hydro owned from Nov 2014 Long term power contract expiring end of 2020 Decision to start-up idle electrolysis capacity (95 000 mt)
Slovalco (55.3%)	Slovakia	497 (100% basis)	174 (100% basis)	200 (100% basis)	extrusion ingot, foundry alloys	<ul style="list-style-type: none"> Joint venture with Penta (Slovakia) One prebake line Long-term power contract expiring end of 2021
Tomago (12.4%)	Australia	929 (100% basis)	74	75	standard ingot, extrusion ingot,	<ul style="list-style-type: none"> Joint venture with RTA and GAF Three prebake lines Largest producer in Australia Long term power contract expiring in 2028
Qatalum (50%)	Qatar	1151 (100% basis)	307	332	extrusion ingot, foundry alloys	<ul style="list-style-type: none"> Joint venture with Qatar Petroleum Two prebake lines Among the world's lowest cost smelters 40 year gas supply contract expiring in 2049
Alouette (20%)	Canada	838 (100% basis)	122	150	standard ingot,	<ul style="list-style-type: none"> Joint venture with RTA, AMAG and IQ/Marubeni Two prebake lines Largest producer in North America Among the world's lowest cost smelters Long term power contract expiring end of 2030
Albras (51%)	Brazil	1188 (100% basis)	460 (100% basis)	460 (100% basis)	standard ingot	<ul style="list-style-type: none"> Joint venture with NAAC 4 prebake lines Largest producer in South America Long term power contract expiring end of 2024

1) Production and casthouse capacity for part-owned companies represents our proportional share. Slovalco and Albras are fully consolidated in terms of volumes and financial results. Karmøy includes the new Pilot reduction line.

2) In addition to the production capacity indicated in the table above, Rolled Products' Neuss smelter located in Germany has an annual electrolysis capacity of 235,000 mt.

3) See also discussion regarding power supply for our wholly owned Norwegian smelters and additional information relating to power supply for certain other plants.

4) Curtailment of one foundry alloys line from the middle of 2012.

5) Actual production impacted by curtailment of about 50 percent of capacity in the first quarter of 2009.

new contract with new terms and conditions extending the existing supply of electricity for a 13 year period to 2029. Electricity for the remainder of our smelter system is covered under medium to long-term contracts.

Technology and innovation

Technology development and innovation are important pillars for Primary Metal to develop future benchmark technology platforms for aluminium production and to lift performance in existing smelters. The construction of the Karmøy technology pilot for industrial verification is an example of realizing the potential of such a development and innovation phase, introducing our next generation technology platform for electrolysis with considerably increased efficiency and performance.

9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



13 CLIMATE
ACTION



Short-term it is important to ensure successful start-up and fulfill the targets of the technology pilot. Medium-term the focus will be to

retrofit technology elements, i.e. physical as well as control platform elements, from the Karmøy technology pilot into the existing Primary Metal smelter portfolio to meet ambitious efficiency and performance improvement targets, including reduced environmental footprint.

Utilizing the existing and rapidly increasing digital potentials will be vital to fully realize the performance targets, both for the Karmøy Technology pilot and for the retrofit to existing plants.

The long-term ambition is to develop an autonomous cell in an automated smelter.

Environment

Aluminium smelting is an energy intensive process. However, approximately 70 percent of the electricity used in Hydro's smelters is provided by hydro power. A substantial portion of the remainder (around 20 percent) is provided by natural gas. On a world-wide basis electricity used for aluminium production based on hydroelectric power is about 36 percent and 8 percent is based on natural gas. The Intergovernmental Panel on Climate Change (IPCC) recognizes natural gas as an important transition fuel that can help reduce global temperature increases.



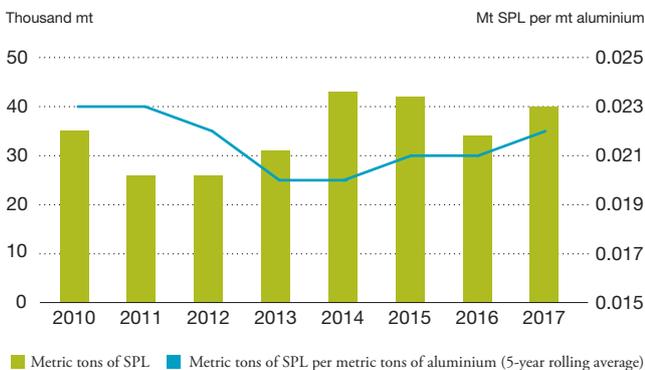
Primary Metal is Hydro's largest consumer of energy and has the largest combined direct and indirect greenhouse gas

emissions. In 2017, direct greenhouse gas emissions from the company's primary metal production, based on ownership equity, amounted to 3.6 million mt. Indirect emissions from electricity production was 3.9 million mt. Direct emissions of CO₂ equivalents per mt of aluminium from electrolysis was 1.59, down from 1.61 in 2016. The main source of direct CO₂ emissions from Hydro's smelters is the consumption of carbon anodes.

See the Viability Performance section later in this report for more information regarding our climate strategy and how aluminium products can contribute to reduced energy consumption and greenhouse gas emissions.

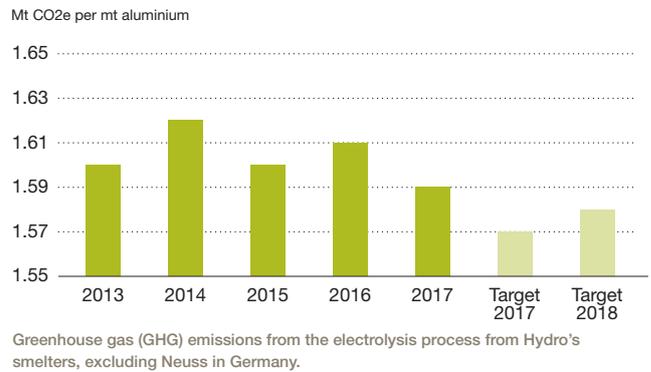
Production of primary aluminium generates secondary raw materials, biproducts and waste. Hydro is continuously working to increase sustainability through reducing the

Spent potlining (SPL) from aluminium production



The volumes of spent potlining (SPL) varies with the relining of smelter cells which is normally done every 4-7 years for established smelters. Furthermore, opening new production lines and closing down production lines will give fluctuations in the aluminium production, and - due to the cyclic nature of SPL - a 4-7 years time lag in the SPL volumes. Hence, SPL is normalized with aluminium production with a 5-year rolling average as the best estimate of a trend line.

GHG emission intensity – electrolysis

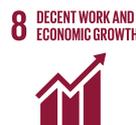


material loss and increasing internal reuse and recycling. By cooperating with research-, and industry partners Hydro is maintaining and developing sustainable material handling throughout the value chain. Hydro's excess material have proven valuable for industrial partners in cement-, mineral wool-, metals- and construction materials manufacturing.

Norwegian Environmental Agency has renewed the environmental permits for Hydro's smelters in Karmøy and Høyanger, Norway.

People

Primary Metal, including Metal Markets⁴) had 4,797 permanent employees in its consolidated activities at the end of 2017 and 678 temporary employees including apprentices and trainees. We have a responsibility to provide a safe work environment and believe that this promotes efficiency and lower operating costs. We monitor and drive ongoing safety improvements by systematic measuring and reporting of injuries. Through deployment of our Work Environment Risk Assessment (WERA) process we have reduced employee exposure to hazards within our operations by 5 to 10 percent annually in the last 10 years. This includes reduction of exposure to noise, dust, heat, fumes, chemicals and vibration. As hearing impairment has been increasing, focus has been on reducing noise.



Our AMBS system helps to ensure empowerment and development of our people across our organization. AMBS has provided a paramount foundation for previous cost reduction programs (USD 300 program achieved from 2010-13) and is

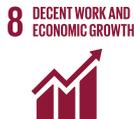
expected to help us achieve the new improvement ambition with NOK 1 billion by the end of 2019. My Way, our internal performance and development process, and Hydro Monitor, our employee engagement index, are important tools to engage our people and enhance the performance and

development of our organization. In 2017, more than 98 percent of Primary Metal's employees (including Metal Markets) participated in My Way. Hydro Monitor is run every second year, the next time in 2018.

Diversity in the organization is important to us, in particular related to age and gender. A comprehensive diversity awareness training program has been run at management level at all plants, and will be further introduced at more levels in each unit. In 2017, 62 percent of the technology graduates (MSc) were women. We also emphasize the need to recruit more female operators and promote the workplace as fit for both genders, motivating young women to seek vocational training in the process industry.

Society

Hydro is one of the most important business enterprises at several communities where our smelters are located. A good dialogue with local residents is considered essential for the mutual benefit of our business and the societies in which we operate. In Barcarena, the location of Hydro's Albras smelter and Alunorte alumina refinery, an inter-sectoral forum has been established to improve communications with the local community. Please see the Viability Performance section later in this report for further information.



In Qatalum, Qatar, the large majority of employees are migrant workers. We strive to secure good working conditions for people employed directly as well as following up the conditions for contractor employees.

Hydro's supplier requirements regarding corporate responsibility form an integral part of our procurement process. Several of the suppliers for our smelting operations are based in developing countries dealing with certain environmental and social issues. We have risk based mechanisms in place to assess compliance with local regulations and our own requirements including on-site audits and follow-up actions.

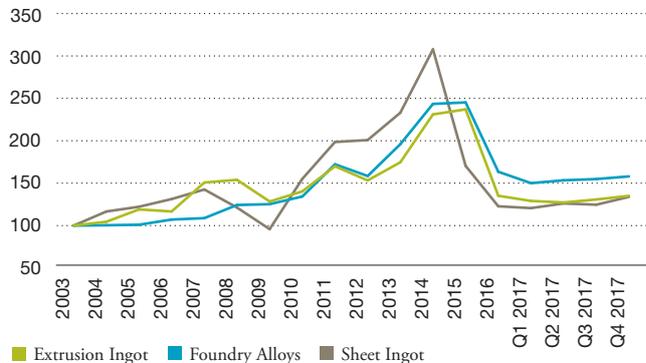
Metal Markets

Strategy and targets - MM

Hydro's flexible and extensive multi-sourcing system enables us to rapidly adjust our remelt and recycling production to market demand. We intend to continue capitalizing on this flexibility to secure our market position and create additional value on top of LME for our production capacity. We will also exploit this competitive advantage to optimize our

European premium development*

Indexed, 2003=100



Source: Hydro. *Premiums above LME.

casthouse utilization and margin contribution. By increasing sourcing and recycling of post-consumer scrap we will improve our profitability and contribute to reaching our ambition to become carbon-neutral in 2020. Hydro will convert our industry-leading climate position into products for the low-carbon circular economy and have during 2017 launched its first certified sustainable products. Global optimization of Qatalum sales volumes continues to be key priority.

Metal Markets mid-term strategic goals are included within Primary Metals mid-term strategic goals.

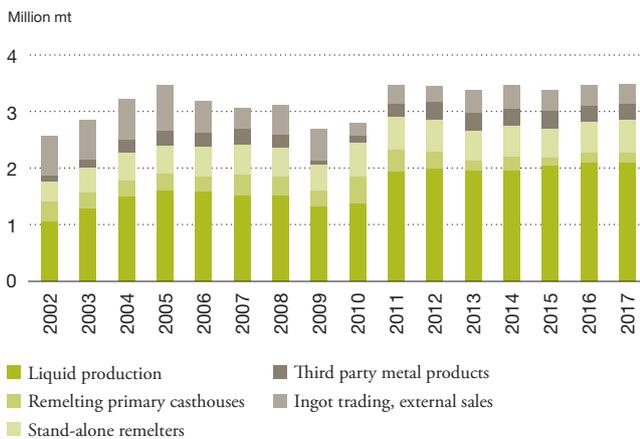
Focus on margin management

Optimizing product premium margins in our primary casthouses and stand-alone remelters will continue to be at the top of our agenda. This includes shifting production toward higher premium alloys, optimizing remelting activities in response to market developments, shorter duration premium pricing and global optimization of product sales towards stronger markets. We will continue implementing key product strategies including strengthening our technical resources and enhancing our market team and key account approach.

Grow recycling capabilities

We have built a strong position in the metal products markets to optimize the capacity of our integrated casthouses and stand-alone remelters offering value-added products to the marketplace. Our ambition is to take a strong position in aluminium recycling to improve our cost base and reduce our carbon footprint. To increase our recycling capacity we acquired a scrap shredding and sorting company in St. Peter, Dormagen, Germany in 2015 and have introduced additional recycling capacity in our Clervaux, Luxembourg facility during 2015 and 2016. In 2017 we have invested in a

Sales of casthouse value added products and ingot trading



new batch homogenising facility in Commerce, US, enabling the plant to serve new customers and use new raw materials. An investment in a new melting furnace in Luce has also been initiated and will be completed in 2018. We plan to further increase our capability and capacity to use post-consumer and other types of contaminated scrap and identify new sources of raw materials. With implementation of our global scrap network we will improve communication and cooperation between the regions, generating synergies in our operations. We also plan to continue to increase sales of recycling friendly alloys from our remelters, supported by the launch of our new 75R certified low-carbon aluminium product in 2017.

Risk management

We will continue to secure the value of our commercial portfolio by hedging price risk exposures within our group upstream and downstream businesses, mainly resulting from time lags between our manufacturing process and the pricing of products to our customers.

Ambitions going forward

Our vision is to be the preferred partner for casthouse products and services. We will strengthen our focus on enhancing product premium margins by utilizing the flexibility of our multi-sourcing system to manage our global product portfolio in an optimal way. We will continue our strong focus on safety and risk management, and maintain firm discipline on operating costs and capital expenditures.

Operations - MM

Metal Markets is responsible for all sales and distribution activities relating to products from our primary metal plants and our stand-alone remelters. We operate seven remelters, which recycle mainly scrap, but also standard ingot⁵⁾ into new products. We also market metal products from our part-

owned smelters and third parties, and engage in other sourcing and trading activities, including hedging activities on behalf of all business areas in Hydro.

Cost and revenue drivers

Our results are mainly impacted by the operating results of our stand-alone remelters, margins on sales of third party products and results from ingot and LME trading activities.

Revenues for our stand-alone remelters are influenced by volumes and product premiums over LME. Costs are driven by the cost of scrap and standard ingot premiums over LME, freight costs to customers and operational costs, including energy consumption and prices.

Our results can be heavily influenced by currency effects⁶⁾ and ingot inventory valuation effects.⁷⁾

Competitive strengths

- Leading worldwide supplier of extrusion ingot, sheet ingot, foundry alloys and wire rod
- High share of value added products
- Extensive multi-sourcing system including broad network of primary casthouses, stand-alone remelters and partly owned primary sources
- Strong recycling capabilities, including world-leading scrap sorting technology
- Flexible sourcing system enabling significant, rapid and cost effective volume adjustments
- Strong market position in US and Asia through Qatalum volumes
- Commercial expertise and strong risk management competence enabling us to secure manufacturing margins

Remelting

We have a network of seven stand-alone remelt plants that convert scrap metal and standard ingot into extrusion ingot. We have five plants in Europe and two in the U.S. with a total capacity of about 0.6 million mt, roughly 0.4 million mt of which is located in Europe. Our remelters in Europe are located in Luxembourg, the United Kingdom, Germany, Spain and France. In addition we operate the scrap shredding and sorting plant St. Peter, Germany with a capacity of some 36 thousand mt of scrap. Total remelt activity, including remelted metal from casthouses integrated with our primary metal plants and third-party sourcing, has historically represented about half of our total sales of metal each year, but has been reduced during the past years to adjust to market balance and improve margins. In addition to remelting process scrap returned from customers, we purchase pre and post-consumer scrap from third parties. Standard ingot is procured globally under a combination of short and long-term contracts.

Sourcing and trading

To optimize the global standard ingot portfolio, we source standard ingot for remelting in Hydro's remelters and primary casthouses from third parties, as Hydro's production of standard ingot goes to other regions to optimize logistics. Third-party contracts are also entered to optimize our total portfolio position and to reduce logistics costs. We also sell standard ingot to external customers.

Our main risk management objectives are to achieve an average LME aluminium price on smelter production, matching the average customer pricing pattern, and to secure margins in our midstream and downstream businesses. Our sourcing and trading operation acts as an internal broker for all LME-hedging transactions by our business units in order to consolidate Hydro's exposure and reduce transaction costs.⁸⁾

Markets, products and customers

Most of our aluminium is sold in the form of value-added casthouse products such as extrusion ingot, sheet ingot, foundry alloys and wire rod. Our product with the highest volume is extrusion ingot, which is sold to extruders producing aluminium profiles. The most important end-use segments include the building and construction industry, transport and general engineering. Our key market region for extrusion ingot is Europe. However, the Asian and U.S. markets are also important markets for Hydro selling units from Qatalum and Tomago. Other important markets for Qatalum include Turkey, the Middle East and Australia/New Zealand.

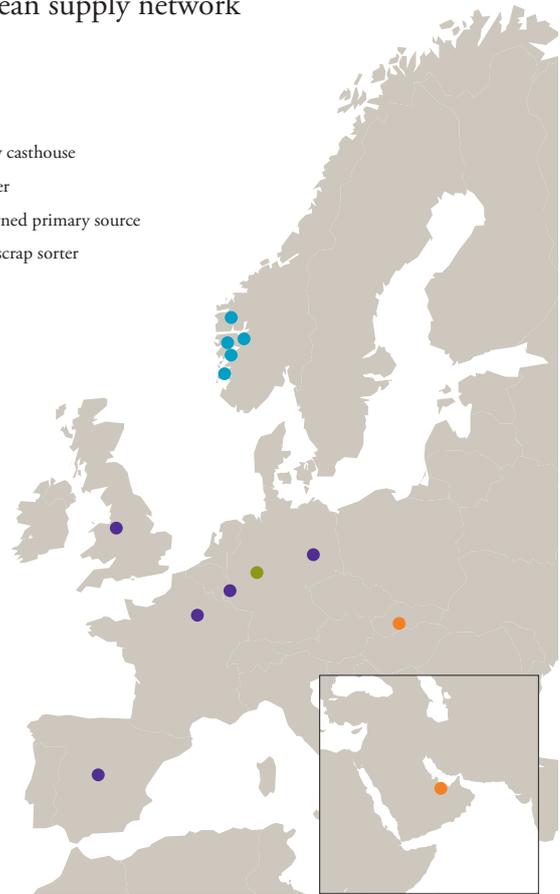
Foundry alloys are sold to foundries producing cast parts primarily for the automotive industry. With Qatalum tonnage Asia has become our most significant market for this product. Sheet ingot is sold to European rolling mills, with packaging and transportation as the most important end-use segments. Wire rod is sold to wire and cable mills in Europe for power transmission and other electrical applications.

In addition to marketing our own products, we have commercial agreements to market products from part-owned smelters including a full marketing responsibility for all of the casthouse production at the smelters in Qatar and Slovakia.

Our regional market teams are key to our customer approach, delivering commercial, technical, logistical and scrap conversion services. Optimized solutions, such as our customer service programs and online customer portal, add further value and help build and reinforce customer relationships.

European supply network

- Primary casthouse
- Remelter
- Part-owned primary source
- WMR scrap sorter



Technology and innovation

Innovation and development is carried out in close collaboration between our customers, production units and R&D. We emphasize three main areas including the quality of our products, the efficiency of our production system and the development of new alloys to enhance the functional characteristics of our products. Our casthouse production process is based on our advanced proprietary casting technology, developed by the fully-owned equipment producer Hycast and our R&D center. In 2016 we implemented new Adjustable Flexible Molds (AFM) casting technology in our casthouses in Årdal and Høyanger to better serve customers in the automotive industry and strengthen our position as a supplier of advanced sheet ingot.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Quality improvements are closely linked to our customer technical service, addressing customer needs while improving our own

casthouse process. We develop new alloys with distinct properties to support the development of new or enhanced applications within the automotive, building, electronics and other industries. This work begins with developing an understanding of metallurgical processes that form the basis

for sample compositions and production methodologies carried out in laboratory or test production facilities. Finally, full scale testing is done often together with customers or end users.

Recycling of post-consumer scrap is an important activity to enable reduced costs and increased capacity utilization as well as contributing to the reduction of the carbon footprint of our products. Our casting and alloy expertise enables us to produce products that can be recycled and used as raw material for high quality semi-finished products. Developing products that optimize the use of recycled material is another focus area.

Hydro have during 2017 launched its first certified sustainable products - converting our industry-leading climate position into products for the low-carbon, circular economy:

- 4.0 is produced by hydropower based smelters, and has a guaranteed maximum carbon footprint of 4 kg CO₂/kg aluminium
- 75R is produced at remelters, and has a guaranteed minimum post-consumer scrap content of 75%

Environment

Aluminium can be continuously recycled without degradation in quality and requires only 5 percent of the energy necessary for primary aluminium production. Depending on cost and quality differences between standard ingot and aluminum scrap, recycling can be commercially attractive and provides significant environmental benefits. These include conserving energy and other natural resources, reducing greenhouse gas emissions, reducing land encroachment related to bauxite mining and alumina refining and reducing landfill. However, most of the aluminium produced today is used in long-life products. As a result, access to aluminium scrap is limited and most of the raw material for our recycling comes from process scrap from our own production and from other companies.



In 2017, Hydro recycled 1.3 million mt of aluminium on a combined basis, up 3 percent compared to 2016.⁹⁾ Of

this, 152,000 mt was post-consumer scrap, an increase of 10 percent during the year.

People

Please see Primary Metal for information about processes and performance relating to people for Metal Markets.

Society

Metal Markets' operations are either co-located with larger Hydro operations or are relatively small stand-alone operations with limited direct social impact on the communities they are part of. The main social impacts associated with our operations are caused by our suppliers, mainly for scrap and alloying metals. See Primary Metal for information relating to our supplier requirements regarding corporate responsibility.

Rolled Products

Industry overview - RP

The aluminium rolled products industry is characterized by economies of scale, with significant capital investments required to achieve and maintain technological capabilities and to meet customer qualification standards.

Worldwide consumption amounted to approximately 26 million mt in 2017 in which foil, beverage cans and transport were the largest segments. Europe and North America represent around 20 percent of world consumption each. The five largest producers in Western Europe supply about 70 percent of the European market. China is the largest single market, representing around 35 percent of global consumption.

The export of semi fabricated and fabricated aluminium products from China to the rest of the world has steadily increased over the last several years, driven by the utilization of Chinese production overcapacity as well as export tax rebates provided for several semi-fabricated products. Several countries have initiated, or are considering, anti-dumping measures on Chinese imports.

See the Risk review section in the Board of Directors' report for the discussion on our exposure to competition from China.

Strategy and targets - RP

Maintaining our strong market position and increasing returns continue to be key priorities in our Rolled Products business operations. Differentiation through innovation in products, processes and services is an important means to grow our market share and margin contribution. Measures aimed at increasing efficiency and reducing costs will continue together with efforts to reinforce safe operations and sustainable business practices.

Building on our strong market position

Differentiation is a key element of our strategy, striving for solutions to best serve our customers. In close cooperation with our customers we continue to work on quality and service improvements. In lithographic sheet for example, we continue to lift the competitive bar by enabling more

performance for less process cost. Our new material HPSplus, the next generation of lithographic sheet, provides high bending fatigue strength and superior surface finish, and is reducing process cost on our customers' side at the same time. Having signed multi-year contracts with major European can makers and contracting all-time high volumes, we are now becoming No 2 in European beverage can. In special products, we strengthened our position in Europe through high-grading our product portfolio, supported by our local technical customer service and our central research and development center.

Based on expected strong demand growth in the automotive Body-in-White market segment, we have invested in a new production line in Grevenbroich, Germany. While construction of the new production line was completed within budget and time frame, the product qualification and ramp-up phase is delayed due to various technical issues.

Ramp-up of the new Used Beverage Can (UBC) Recycling Line at our Rheinwerk smelter in Neuss, Germany, is progressing. Equipment design issues have adversely affected production performance in 2017. After design modifications the line is expected to reach targeted output speed of >40 000 mt/yr liquid aluminium by year-end 2018. The UBC line will support our target of being carbon neutral by 2020.

Strengthen our performance in Environment, Health and Safety

Rolled Products is a key contributor to Hydro's overall carbon-neutrality ambition: We aim to lead in sustainable solutions by products and processes with overall improved CO₂ footprint along the value chain.

Through the reduction of energy consumption in Rheinwerk smelter and an energy efficiency program for our rolling mills we are reducing emissions and increasing resource efficiency. The targeted increase in volumes sold to the automotive

market as well as numerous other flat rolled products in use contribute to maximizing 'use-phase benefits'. As one of several activities, our new UBC line contributes to increasing recycling of post consumed scrap.

We will continue our efforts to improve safety performance through risk reduction and stronger leadership and engagement supported by appropriate training.

Achieve targeted improvements

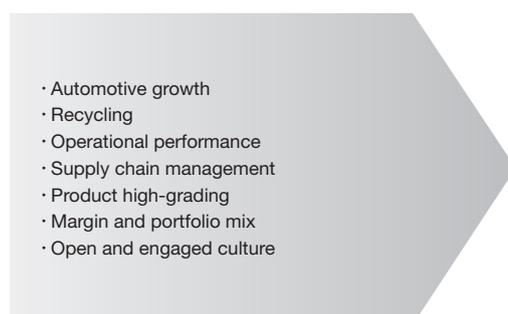
Our improvement ambition *Better* Rolled Products had been defined to generate annual revenue and cost improvements of NOK 900 million by 2019 compared to revenue and cost levels at the end of 2015. The delays in the new automotive and UBC lines as well as performance issues in some of our plants adversely affected our improvement ambition in 2017. The "Better Rolled Products" improvement ambition has been delayed by one year, now targeting NOK 900 million by 2020, the revised 2019 target is NOK 700 million.

Ambitions going forward

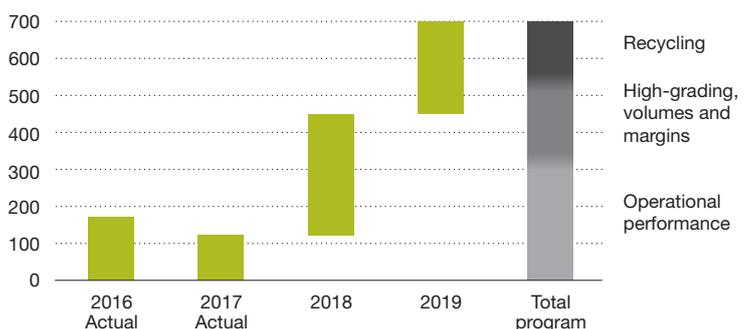
Renew, a cultural enhancement program to lift cooperation and engagement to enable us to achieve our Better – Bigger – Greener targets was launched in 2015 and continued in 2017. We are committed to a safe working environment and to eliminating accidents in our operations. We aim to increase the returns of our business operations by concentrating on operational excellence, based upon our Rolled Product Business System (RPBS). Focus is put on production reliability and quality to support productivity and cost. Improved reliability will reduce waste in all processes and plants, benefiting both cost and customers. Our customer and market focus is a key success factor in high-grading the product portfolio to achieve higher margin contribution per hour on bottle-neck equipment. We intend to develop and improve our market share by leveraging our preferred supplier position in the market. With a focus on our strong position within lithography, foil, beverage can,

Rolled Products improvement ambition

Improvement categories



NOK million



Mid-term strategic goals Rolled Products

	Ambitions	Medium-term target	Timeframe	2018 target	2017 target	2017 progress	Status
<i>Better</i>	Improve safety performance, strive for injury free environment	TRI <2 ¹⁾	2020	3.0	3.5	3.9	●
	Deliver on improvement ambition <i>Better</i> Rolled Products	700 MNOK	2019	450 MNOK	315 MNOK	125 MNOK	●
	Differentiate through product innovation, quality and service	min. 1 step change/yr	Annually	1 step change	1 step change	HPSplus	●
<i>Bigger</i>	Increase nominal automotive Body-in-White capacity	200,000 mt ²⁾	2017	200,000 mt	200,000 mt	Delayed ramp-up	●
	Complete ramp-up of UBC recycling line	>40,000 mt	2017	Ramp-up completed	Ramp-up completed	Delayed ramp-up	●
<i>Greener</i>	Lift post-consumer scrap recycling	>100,000 mt	2020	83,000 mt	56,000 mt	52,000 mt	●

1) TRI, total recordable injuries per million hours worked, includes own employees and contractors.

2) Refers to nominal capacity

Green light: Ambition on track and on target; Amber light: Ambition behind plan, but on target; Red light: Ambition might not meet the target

automotive and special products, we will continue to emphasize the quality of our products and services to our customers. We may pursue selective growth opportunities and will keep our focus on innovation and technology to sharpen our competitive edge.

Operations - RP

The rolling process consists of heating up to 600 millimeters (mm) sheet ingot to about 500 degrees Celsius and gradually rolling it into thicknesses of 3-13 mm for further processing. An alternative process, continuous casting, converts molten metal directly into coiled strip, typically 4-8 mm thick. Once cool, the thinner metal is further processed in cold rolling mills, producing various types of products for all markets supplied.

Cost and revenue drivers

Rolled products is a margin driven business based on a conversion price where the LME cost element is passed on to the customer. Contracts are generally medium term. The cost structure includes a high proportion of fixed costs, so results are volume sensitive.

Competitive strengths

- Leading positions in high-end products including automotive, foil and lithographic sheet
- Global reach with more than 30 percent export share for high-end markets, serving key customers in the Americas, Middle East and Asia-Pacific
- Leading R&D facility dedicated to Rolled Products
- World class assets including Alunorf (Hydro share 50 percent), the world's largest rolling mill, and Grevenbroich, the world's largest multi-product finishing mill
- Alunorf, Grevenbroich, Rheinwerk smelter and R&D

Bonn located in close proximity generating significant logistical advantages

Rolling mills

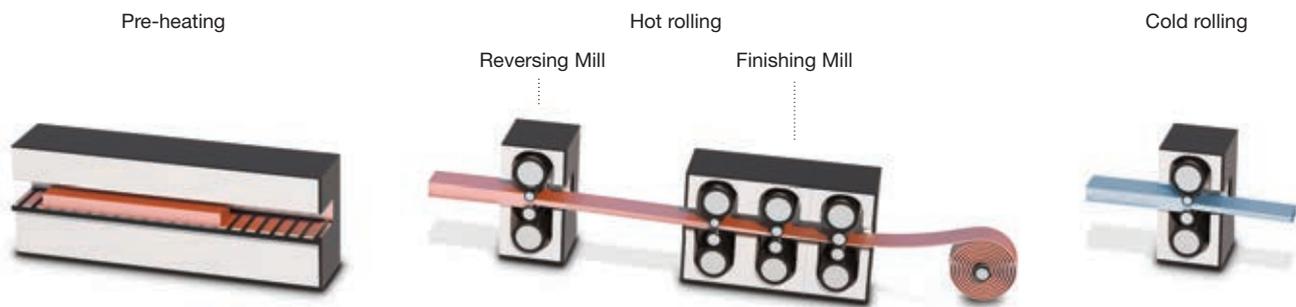
We generated approximately 75 percent of our total sales in Europe. More than half of our production was produced in the Grevenbroich/Alunorf rolling system in Germany, one of the most modern and efficient rolling operations in the world. Grevenbroich is the center of our packaging, lithographic and automotive sheet operations. Our production network mainly comprises of so-called "wall-to-wall" processing, including an integrated casthouse combined with both hot and cold rolling mills.

Around one third of the metal used was sourced internally, based on arm's-length conditions related to LME and applicable premium prices. External supplies of liquid metal, sheet ingots, standard ingots as well as post-consumer and pre-consumer scrap from our customers accounted for around two thirds of our total requirements in 2017.

Neuss smelter

Neuss is the largest aluminium smelter in Germany, with a primary metal capacity of 235,000 mt per year including one curtailed pot line. Beside the primary capacity Rheinwerk Neuss has a recycling capacity of 90,000 mt including a new state-of-the-art UBC recycling line which is currently ramped-up. The plant supplies the near-by Alunorf rolling mill with primary and recycling based sheet ingots for processing and subsequent fabrication of rolled products in Grevenbroich. The Neuss smelter is an important element of this integrated system and provides significant operating synergies.

The rolling process



The slabs are preheated before entering the hot reversing mill. The sheets are then rolled to the intermediate thickness in the finishing mill and cold rolled to the final product thickness.

Markets, products and customers

Our ambition is to leverage our position as a preferred supplier by focusing on quality, product development and innovative solutions, together with excellent customer service and overall cost efficiency. To ensure a strong market orientation, our sales function is organized centrally along business lines. This is supported by sales offices in Europe, Brazil, the US, and Singapore where we optimize market contact and sales potential.

Our rolled products business is organized in two business units serving the different market segments in which we operate.

Business unit Global products

Lithography: Hydro is the leading global supplier of lithographic sheet for printing plates, a market characterized by demanding requirements for surface quality, metal characteristics and mechanical properties. We differentiate our products through innovation, consistent high quality, supply chain solutions and extensive service to our customers. Key customers in this segment include Agfa, FujiFilm and Kodak. Our litho production is concentrated at the Grevenbroich plant.

Automotive: We are a major supplier of aluminium sheet and coil to the European automotive market for interior and exterior vehicle body parts, chassis and component applications. Key customers include Audi, BMW, Daimler, PSA and Jaguar Landrover. Production is concentrated within our Grevenbroich and Hamburg plants. To increase our car body sheet capacity we have invested in a new production line in Grevebroich (automotive line 3), that is currently in the ramp-up phase.

Heat Exchanger: We produce a wide variety of mainly clad strip and sheet used in the manufacture of heat exchangers for passenger and commercial vehicles as well as other product applications. We are among the top producers in Europe, working with key tier one suppliers such as Mahle Behr, Denso, Modine and Linde to develop specially adapted alloys and optimized production techniques to fit their manufacturing processes.

Foil: We serve customer needs in the rigid, semi-rigid and flexible packaging industry, offering plain and converted foil and strip. We provide packaging solutions combining high-quality manufacturing with innovation, cost effectiveness and sound ecological characteristics. We also offer a wide range of

Plant	Country	Capacity (000 mt)	Main products	Other characteristics
Grevenbroich	Germany	570	Packaging, lithographic sheet, automotive	<ul style="list-style-type: none"> The world's largest multi-product finishing mill Supplied by nearby AluNorf rolling mill
Alunorf 50%	Germany	800	Packaging, automotive, general engineering	<ul style="list-style-type: none"> The world's largest rolling mill 50/50 joint venture with Novelis Partly supplied with sheet ingot from nearby Rheinwerk smelter Integrated cast house, based on remelting and recycling
Hamburg	Germany	165	General engineering, automotive, heat exchanger	<ul style="list-style-type: none"> Integrated casthouse and recycling
Karmøy	Norway	90	General engineering	<ul style="list-style-type: none"> Continuous casting
Holmestrand	Norway	90	Building, general engineering	<ul style="list-style-type: none"> Integrated casthouse, recycling center
Neuss	Germany	235 primary	Liquid metal and sheet ingots	<ul style="list-style-type: none"> Integrated casthouse and recycling
			40 (UBC)	<ul style="list-style-type: none"> One potline curtailed UBC recycling center
Dormagen	Germany	45	Automotive	<ul style="list-style-type: none"> Slitting

Business unit	Shipments in %	Key characteristics
Global products	69	<ul style="list-style-type: none"> • Largest producer in the lithographic sheet market • Serving OEMs and their suppliers with strip and sheet for automotive body, component and chassis applications • Automotive and non-automotive heat-transfer applications • Beverage can and foil with leading position in the high value-added liquid packaging market
Special products	31	<ul style="list-style-type: none"> • General engineering products mainly used in industrial applications • Coated building products

services relating to our packaging products in terms of consulting and technical support. We are specialists in thin-gauge foil for flexible packaging, offering foil as thin as 5.0 µm for the packaging of food as well as for technical applications, including converted qualities with a variety of lacquered, laminated and coated finishing. Tetra Pak, Amcor Flexibles and Constantia Flexibles are key customers. Production of packaging is mainly concentrated in our Grevenbroich rolling mill.

Beverage can: Hydro is a worldwide supplier of body, end and tab stock in the form of rolled coil for the production of aluminium beverage cans. Our modern and efficient production facilities, technical know-how and experienced development support facilitate the delivery of high-quality materials to meet the specific requirements of can manufacturers. Our Grevenbroich plant is dedicated to the production of Hydro's quality proprietary can-end stock efficiEND®, which promotes productivity and cost-effective manufacturing to major beverage can manufacturers such as Ardagh, Ball and Crown.

Business unit Special products

General Engineering: General Engineering products are mainly used in the building and construction, transportation, industrial and electrical markets. Products include coil and sheet for wholesalers and end-producers. We operate modern and efficient manufacturing processes, offering quality products and extensive technical support.

Buiding (coated): Hydro is one of the leading manufacturers of coated aluminium strip, with experience in the building market for many decades. We offer to our customers a portfolio of cost-effective solutions from the dedicated production lines in our Holmestrand rolling mill, including product applications for roofing and cladding, roller shutters, ceilings, composites and other specific applications.

Technology and innovation

Based on continuous research and development at our dedicated R&D center in Bonn, Germany, we differentiate our business through innovative products, processes and services that save resources, reduce emissions and increase performance. Customers benefit from this added value, which increases our market share and margin contribution. We cooperate with customers to develop innovative solutions, through R&D and our sophisticated technical customer service. Our world leading, in-house simulation team utilizes the latest computer aided process design and alloy development tools.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



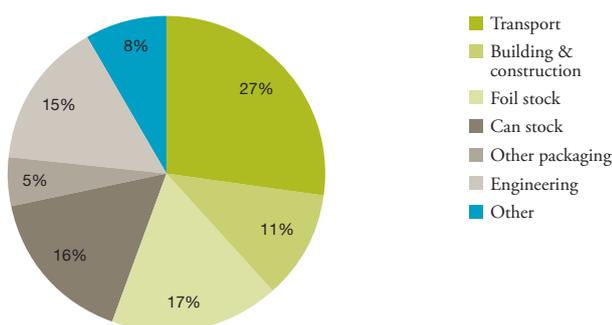
12 RESPONSIBLE CONSUMPTION AND PRODUCTION



The sophisticated modeling not only delivers optimum results, but also provides all the necessary information for efficient application by

Flat rolled products consumption
Western Europe 2017

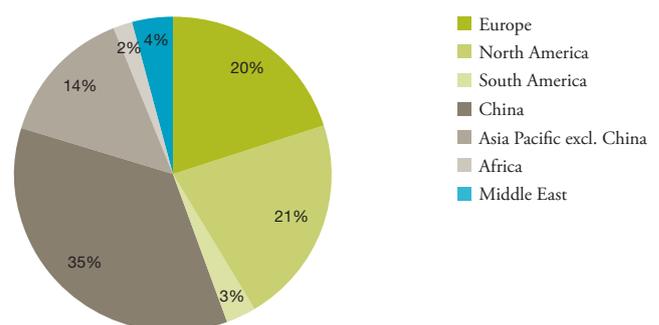
Total market 4.2 million mt



Source: CRU quarterly November 2017

Flat rolled products consumption
Global 2017

Total market 26.4 million mt



Source: CRU quarterly November 2017

our customers. Supported by our advanced scrap processing and melting concepts, we plan to increase the volume of recycled material used in our production processes. We also focus on optimizing our alloys to make aluminium the material of choice in all our markets.

In heat exchanger applications for example, we developed a new product that allows brazing of heat exchanger material without use of fluxing material. We are the only supplier able to offer a flux free solution, avoiding harmful impacts to environment and humans.

In Lithography, the „HPS_{plus}“ quality is a further development of the already established HPS-quality, which is expected to give a further improved graining performance and lower number of surface defects in the customer's process.

Sorting of 5xxx and 6xxx alloys, which are the predominant alloys in automotive, is a main issue with regards to recycling of automotive scrap. A pilot scale sorting line for automotive scrap based on LIBS (Laser-induced breakdown spectroscopy) technology has been installed at our R&D center in Bonn in 2017, aimed at enhancing Hydro's and aluminium's competitiveness and further growth in automotive.

In 2017, we have further strengthened our capabilities with New Business Development. The new organization is dedicated to screen new technologies and trends, to develop new products and solutions, and to ensure full support until the innovation is ready for market.

Digitalization / Industry 4.0

Digital business transformation is seen as an important element to meet future requirements. Current technologies, increasingly available at lower costs, open up opportunities to digitize production processes along the whole value chain, capitalizing on the value of fast, reliable and accurate data.

We aim for benefits in production e.g. by stabilized material flow, increased through-put and improved safety performance as well as for benefits in administrative functions and interfaces to customers.

Rolled Products has developed a roadmap for digitalization with focus on Big Data, Track & Tracing and Digital Worker. Several projects are on the way and are closely followed up.

Environment

Aluminium has numerous advantages in terms of energy savings and reduced greenhouse gas emissions in the use phase stage of the overall life cycle. Our technical customer

service department works closely with our customers to develop innovative and cost efficient solutions to take advantage of these qualities.



Light-weight aluminium products used in the transportation industry reduce fuel consumption and emissions. Our

production of automotive body sheet is one example of how we contribute to reducing CO₂ emissions while continuing to grow our business.

Another example is the superior food preservation properties of aluminum packaging. Food packaging utilizing aluminium requires less energy to cool and also reduces food waste.

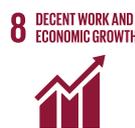
As remelting of recycled aluminium only requires 5 percent of the energy used for the production of primary aluminum, we aim at significantly increasing the volume of recycled material in our products through our advanced scrap processing and melting production processes. We are also focusing on optimizing our alloys to make aluminium the material of choice in all our markets. For example, our automotive products HA6016-X and AA5182 offer higher formability and corrosion resistance, to make cars lighter, safer and more dynamic.

Compared to Hydro's upstream operations, Rolled Products' environmental footprint is relatively small and mainly within the vicinity of our production sites. The main environmental impacts include CO₂ emissions, noise, odor and traffic volume.

Most of our Rolled Products operations are in water-stressed areas with regard to annual renewable water supply (as defined by the WBCSD). Although water supply in these areas is well-regulated, we continue to follow European policies such as the Water Framework Directive. Rolled Products sites conduct a self-assessment exercise designed to identify and lower the risks associated with our water usage and consumption.

People

Rolled Products had 4,088 permanent and 464 temporary employees in its consolidated activities at the end of 2017.



Health and Safety of our employees is our first priority. The related activities in 2018 focus on reducing sick leave, risk management, competent leaders and employee engagement.

The Renew initiative started in 2015 and aims at increased involvement, trust and cooperation of all employees as part of our improvement ambitions. In 2017 Rolled Products focused on developing and implementing a leadership program for the lower management levels which supports us in creating a Renew-type of Leadership in all RP units.

My Way, our internal performance and feedback process, is an important tool to engage our people and enhance the performance and development of our organization. My Way is implemented in all RP units with a participation rate of close to 100 percent. The qualitative feedback given by our employees assessed My Way as helpful for their personal development.

Our employee survey “Hydro Monitor” will be run again in 2018 to measure the engagement of our employees. For the 2018 survey we aim to achieve an Employee Engagement Index which will rate Rolled Products to the top 10 percent in industry benchmark, similar to the rating in the last survey in 2016.

In 2017 our HR operating model, which was rolled out in Germany in 2016, was matured and further refined. Process improvements were implemented and will continue in 2018.

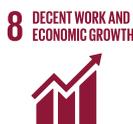
We recognize diversity as a key value and performance driver. It is reflected in our internal improvement activities and also mirrored in our employer branding.

Society

As a significant employer in the areas where we have production sites, Rolled Products and our employees play an active role in the development of the surrounding communities by supporting local programs aimed at education and community involvement.



4 QUALITY EDUCATION



8 DECENT WORK AND ECONOMIC GROWTH

With respect to our supply chain, the area of corporate social responsibility (CSR) forms an integral part of our procurement process.

All of our suppliers are

required to undergo a comprehensive selection process, including risk assessments and on-site audits, to ensure our continued compliance with local regulations and Hydro’s own internal requirements.

Extruded Solutions

Industry Overview - ES

The global extrusion industry is characterized by fragmentation, with numerous local suppliers. Extruded Solutions is the market leader and largest player in the

industry. However, competition is fierce, with local suppliers that are well-established in their respective markets.

North America, Brazil and Argentina

The automotive market in North America grew moderately in terms of vehicle sales, but a strong focus on lighter weight and improved fuel efficiency is driving demand at a higher rate for aluminium extrusions. In addition, the building and construction markets are supporting the growth in extrusion demand. In North America, although a large part of the business is local, the structure of certain markets, such as transportation, automotive, and rolling stock, is more often regional or even global. Beyond Extruded Solutions and its competitors Kaiser Aluminum and Bonnell Aluminum, the majority of extrusion operations in North America are highly local, independently owned companies.

In South America, the economic development in Brazil and Argentina, the region’s two largest economies, has been challenging. However, after being in recession since 2014 Brazil returned to growth mode in the second half of 2017. As a countermove, the Brazilian government has initiated an investigation of potential price dumping by Chinese suppliers.

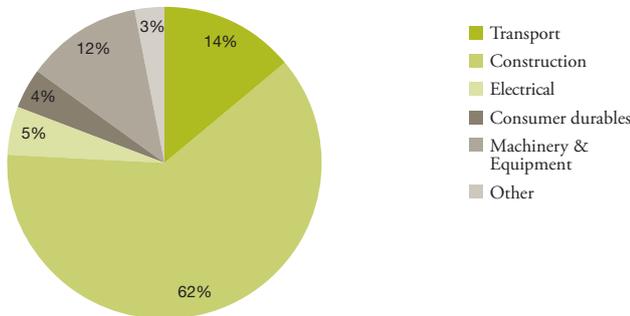
Europe

Proximity is usually very important to European customers. Some European competitors that were previously local have moved into other countries. Cortizo, Exlabesa, and Hammerer Aluminium Industries, for example, now produce in more than just one country. There are 250 extruders and more than 730 presses in Europe. Despite the overcapacity in Europe, we are seeing new extruders in eastern Europe and France entering the market. The automotive market in Europe has over the last years been performing well, which is a natural consequence of the growth in car production. CRU expect +5 percent global aluminium demand growth in the transport segment for 2018. The drivers of the growing automotive market are the same as in North America: lighter weight and better fuel efficiency. The building & construction market for aluminium extrusions is the largest market segment for Extrusion Europe, when automotive and transportation are regarded as separate segments.

The building and construction industry is the largest consumer of aluminium extrusions in Europe and the market remains highly fragmented. The market for building systems is largely local or regional and is experiencing consolidation. With the harmonization of building regulations across the EU, vendors are taking the opportunity to create systems that are not limited by national borders and to coordinate development, production, purchasing, logistics, and marketing. This process is already being conducted

Extrusion aluminium consumption* by end use 2017

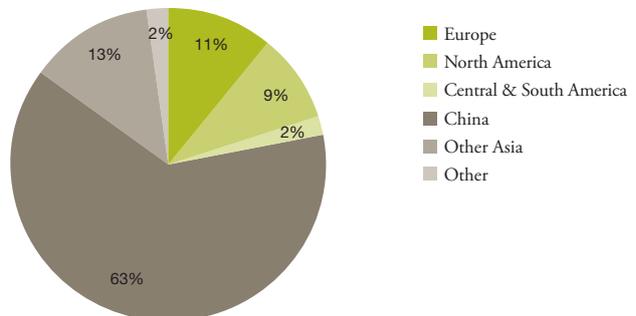
Total market 29.6 million mt



* Consist of semi fabricated products (included recycled aluminium)
 Source: CRU 2017/Hydro

Extrusion aluminium consumption* by region 2017

Total market 29.6 million mt



* Consist of semi fabricated products (included recycled aluminium)
 Source: CRU LT 2017/Hydro

intensively within Building Systems. Competitors include Schüco, Corialis, Ponzio, Kawneer, Reynaers, Heral, and Hueck.

Asia

After two decades of strong investment-driven GDP growth, the Chinese economy is now entering an era of slower consumption-driven growth. The large government stimulus packages put in place after 2008 not only helped stimulate demand, but also led to a significant capacity increase in the extrusion industry. With growth now showing somewhat lower rates, especially in the building and construction segment, more extruders will try to enter the higher-end industrial and automotive segments. This makes a clear niche strategy vital for success.

Within the automotive sector, the Greater China market is showing the strongest growth within lightweight vehicle production. In addition, the Chinese government is heavily facilitating and promoting E-Mobility infrastructure and technology, which is creating opportunities for new applications in the tubing business.

Precision Tubing

Precision Tubing is a global industry, represented in many regions. Consumption of extruded aluminium round tubes, multiport extrusions, and welded aluminium tubes is generated mainly by thermal management applications in the automotive market. With E-Mobility gradually becoming the go-to technology for future propulsion, additional applications in battery cooling have arisen as potential tubing segments. Another industry that is recognizing the benefits of aluminium is Heating, Ventilation, Air Conditioning, and Refrigeration (HVAC&R). In light of stricter legislation and tougher standards for energy efficiency and especially

refrigerants, coupled with the hike in copper prices in 2017, aluminium represents a viable solution to all of these challenges while reducing costs for our customers.

Aluminium consumption in the automotive industry is forecast to grow, driven largely by the increase in worldwide production of light vehicles, electric and hybrid cars, and higher penetration of air conditioning in emerging markets. In parallel, the HVAC&R market still represents considerable potential in substituting copper with aluminium at current production volumes. Precision Tubing is the clear market leader in providing aluminium solutions for heat transfer applications. The main competitors include Erbslöh Aluminium, Impol, and StandardMetallwerke in Europe and Brazeway, Peerless, and Penn Aluminum in the U.S. Competitors in Asia include UACJ, Wanhe, Mitsubishi, Vikas Altech, OKB, Yatal, and CA Auto. Main competitors to Extruded Solutions are also found in the copper segment, including Golden Dragon in Asia and the US, and Mueller Industries in Europe.

Strategy and targets - ES

Strategy

Extruded Solutions ambition is to become the one-stop-shop for its customers, helping them turn an idea into a “mass-customized” aluminium-based product. Seamless collaboration between the front and back ends of the value chain provides customers with complete solutions and rapid response time.

Extruded Solutions is organized around three lines of business: Extrusion, Precision Tubing, and Building Systems. Extrusion North America and Extrusion Europe are the largest business units, each with 38 percent of the business area's revenues, followed by Building Systems 13 percent, and Precision Tubing 11 percent. Extruded Solutions broad

exposure to many end-markets reduces its dependence on the development of any specific market segments. Extruded Solutions products includes; automotive applications such as roof rails and trim, body-in-white, and crash boxes; transportation applications such as bodywork in subway cars, trailer parts, and rolling stock body structures; complex building and construction solutions; and precision tubing applications for the heating, ventilation, air conditioning, and refrigeration (HVAC&R) industry.

Global reach and local presence - plant network

Extruded Solutions has a global standard for operations that ensures quality and reliability across our network of production plants in 25 countries. This also enables flexibility and swift local customer support.

2017 results

- All business units continued to improve financial results in 2017.
- Increased share of value add-business
- A continued shift of the portfolio towards higher margin products, like roof rails and trim for the automotive sector.
- Opening of the Bedwas plant in Wales to serve demands from a growing UK automotive industry and deliver to the new London Zero emission-capable taxi.
- Growth in e-mobility.
- Technal, Wiconal and Sapa are now Extruded Solutions building system brands.
- Opening of new presses in Hungary and China
- Acquisition of Arconic extrusion plants in Brazil
- Swift integration between Sapa and Hydro, including head office merger in Oslo
- One fatal accident in 2017. TRI increased to 3.4 from 3.3 in 2016.

2018 targets

Our overall goal is to deliver profitable growth and results above the cost of capital in all areas of operations. In so doing, Extruded Solutions is committed to remaining an environmentally conscious, ethical, compliant and equal opportunity employer. To achieve this target, we will work on three main levels:

- Increase the value-add of our products and solutions
- Further simplify our processes and organization and collaborate better across units
- Realize selective growth opportunities in high value-add segments

Extruded Solutions strategy will be aligned with the Hydro strategy process in 2018.

Focus on selective growth projects

Extruded solutions will continue to consider opportunities towards more value add activities, investments and acquisitions to strengthen its position in specific segments or markets, the recent agreement to acquire two extrusion plants in Brazil provides a solid platform for further growth as the local market recovers.

Ambitions going forward

Extruded solutions has started the process of aligning its strategic ambitions adopting the company's aspirations to become Better, Bigger, Greener. Extruded Solutions is already well aligned with the rest of the organization when it comes to:

- Raising performance and improving customer offering
- Expanding the use of aluminum and strengthening Hydro's platform for growth
- Leading the transition towards sustainable solutions

As the leader in the extrusion industry, we set high ambitions not only to raise the benchmark within our company, but also to influence the rest of the industry. With that in mind, we will be striving to become Better in the following areas:

- Employer of choice with world-class safety, compliance and people development standards
- Higher value creation through innovation and collaboration
- Strong profitability and value through commercial, service, and operational excellence

When it comes to Bigger, we will continue to:

- Develop leading positions in select profitable markets
- Expand value-added capabilities to strengthen our offerings to customers
- Drive the transition to aluminum in new and existing applications through material substitution

Our Greener ambitions will enable us to be the world's most recognized sustainable company in the extrusion industry with our push towards:

- Promoting recyclability of aluminum applications by engaging with customers in early stages of product development (e.g. design-for-disassembly)
- Reducing carbon footprint throughout our value chain in extruded solutions
- Supporting communities through CSR initiatives

Operations - ES

Extruded Solution is the leading global supplier of extrusion-based aluminum solutions with a market share at the end of 2017 at around 22 percent in Europe and around 24 percent in North America. Extruded Solutions also has a solid foothold in emerging markets with extrusion capacity in South America and in Asia. Extruded Solutions is organized in four business units: Extrusion Europe, Extrusion North America, Precision Tubing, and Building Systems. The business units are responsible for their respective value chains, from aluminium extrusion and value-add operations to commercial activities such as sales and product development.

Extruded Solutions has an extensive network of production plants that ensures a global reach combined with a local presence. During 2017, Extruded Solutions put emphasis on simplification, and to add more value for customers by locating our resources closer to the customers. As a result, some corporate functions were moved to the business areas. Collaboration was a second driver, aimed at facilitating knowledge transfer among the business units. Both initiatives have allowed Extruded Solutions to simplify the organization, improve its cost base, and offer more innovative solutions to its customers.

Cost and revenue drivers

Extruded Solutions is a margin business based on a price where the LME aluminium cost element is passed on to the

customer. Contracts are typically short to medium term. We will continue to shift our portfolio towards higher margin products.

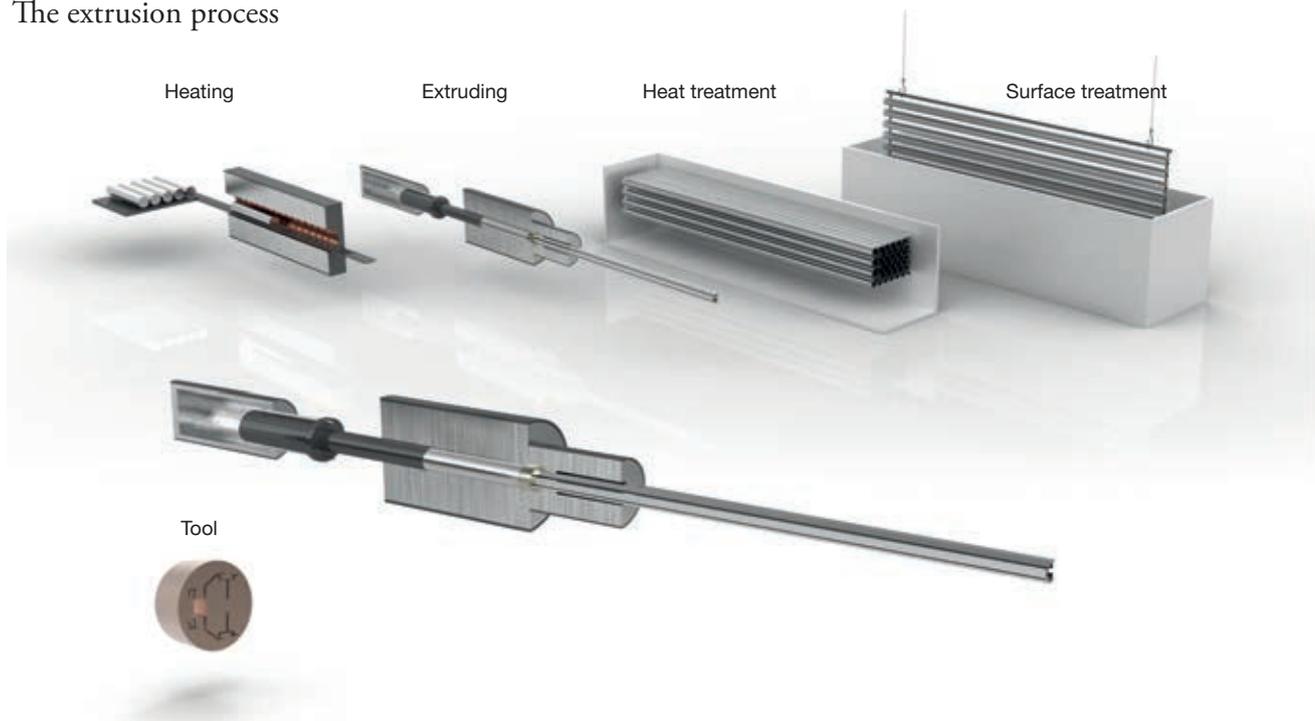
Competitive strengths

- Strong technology competence with dedicated R&D centers and more than 1000 engineers close to the customers
- Global reach and local presence, increasing flexibility and reliability for our customers
- Value chain breadth and depth, from extrusion to surface finishing and fabricating, welding and assembly allows us to offer a wide portfolio of solutions
- Speed in delivery and proximity to customers
- Strong and agile product development capabilities
- Technical leadership in precision tubing extrusion

Technology and innovation

Extruded Solutions' innovation model promotes fast decision paths from idea to product. We have four R&D centers, located in Finspång (Sweden), Troy (USA), Karmøy (Norway), and Toulouse (France), complemented by application centers covering nearly 40 locations across our four business units and three corrosion labs in China, USA, and Norway. We are leveraging this network to engage in open innovation opportunities.

The extrusion process



The ingots are preheated, extruded through a die and hardened before surface treatment.



All efforts are shared across business units to achieve optimal knowledge transfer and enable faster, better impact in other markets

where we see similar opportunities.

We collaborate with leading universities such as the Norwegian University of Science & Technology, Michigan Technological University, Massachusetts Institute of Technology, and the University of Oxford, and specialized companies to address specific challenges in order to deliver better products to our customers faster.

Building Systems has also opened physical showrooms in selected cities in Europe to promote their latest product development. Product innovation is vital to success in that market, mainly in Europe, where end-users are becoming extremely demanding.

At Precision Tubing, innovation efforts are focused on developing new aluminium applications for the automotive industry, such as fuel and brake lines, substituting steel solutions by offering comparable performance but lighter products. R&D in Precision Tubing is also focusing on developing new alloys to achieve higher corrosion resistance in heat exchangers.

Environment

While primary aluminium production is energy and climate intensive, it can save significant amounts of energy and GHG emissions in the use phase. The inherent properties of aluminium make recycling attractive. It can be recycled infinitely without degradation in quality, and recycling requires 95 percent less energy than primary aluminium production.



Environmental considerations are embedded in Extruded Solutions' business planning and decision-making.

Design for recycling and optimizing our products for longer life is an important part of our environmental efforts.

By the end of 2017, 98 percent of all Extruded Solutions' sites had fulfilled the target of being certified under ISO 14001.

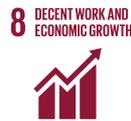
All sites are required to set targets for energy use, CO2 emissions, waste recycling, and water use.

There were no major environmental non-compliances in 2017, but there has been an increase in environment noise

complaints. This is to be a key focus area in 2018. For more information, see note E8 to the Viability performance statements.

People

Extruded Solutions employs almost 22,000 employees in more than 40 countries. We strive for a safe work environment, and believe that HSE excellence will be achieved through consistent implementation of the HSE management system; committed and visible leadership and full engagement of all employees in HSE activities.



In 2017, Extruded Solutions safety performance deteriorated, and we experienced one fatal accident. The TRI¹⁾ rate was 3.4 for the full year 2017 compared to 3.3 in 2016. The number of sites without recordable injuries decreased to 62 from 69 the year before.

During 2017 Extruded Solutions further developed its approach to physical health, mental health and well-being. A new method to occupation exposure assessments has been developed and a focused strategy on work-related stress was agreed.

Extruded Solutions strives to offer an encouraging and stimulating environment, interesting career opportunities, and good working conditions to attract talented people. There are several ongoing global people processes which aim at reaching these ambitions.

Employee engagement impacts everything from injury rates to innovation. Sapa has previously run their company-wide employee engagement survey, Sapa Engaged!, which aims to measure employee wellbeing, every two year. The survey was last conducted in 2017.

The target group of the survey was all employees. In 2017, 19,518 people responded to the survey, more than half of them via electronic tools. The survey indicated improvements related to scores for closest manager. This is assumed to be a direct result of Sapa's work to build basic behavioral leadership down to middle managers. The next survey is planned to take place in 2019, and will include all of Hydro's employees.

Society

Extruded Solutions is a cornerstone employer in many of the communities where our production sites are located. We are committed to the economic and human development of our employees and the communities in which we operate. We have initiatives that contribute to the development of the societies surrounding our operations and sponsor many local initiatives around the globe. In Pune in India, Precision

Tubing sponsored a science lab at a local school, providing 150 children with access to proper tools to learn about science. Other examples relate to donations and support for victims of natural disasters around our operations, such as the victims of the earthquake in Italy in August 2016.

4



QUALITY EDUCATION

8



DECENT WORK AND ECONOMIC GROWTH

Corporate social responsibility is an important foundation for procurement and sourcing in Extruded Solutions. Sapa has worked to promote

transparency and sustainability in the supply chain by implementing their supplier declaration, and conducting on-site audits of suppliers. They have focused on the largest suppliers in high-risk regions. About 60 percent of their total spend is made up of a relatively small share of their 30,000 suppliers.

Energy

Industry overview - EN

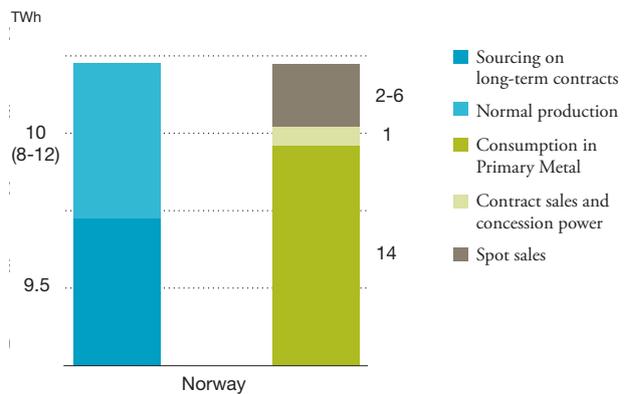
Electricity generation in the Nordic market is mainly based on hydropower (54 percent) and nuclear power (22 percent). Generation in Norway is almost entirely based on hydropower. Total annual Nordic consumption is approximately 400 TWh.

There has been a common Nordic electricity market since the late 1990s. The Nordic electricity market includes the Baltic countries. Nordic system prices are set in day-ahead auctions at the Nord Pool Spot market. The system price is normally the main reference price for financial contracts traded bilaterally and at the Nasdaq OMX. Area prices are calculated for physical delivery to constrain flows when available transmission capacity would otherwise be exceeded. There are five price areas in Norway, four in Sweden and two in Denmark. Finland, Estonia, Lithuania and Latvia constitute one bidding area each.

Prices are influenced by fuel cost (including emission allowance cost), meteorological parameters (precipitation, temperature, and wind) and exchange transmission possibilities with adjoining markets, as well as fluctuations in demand. An increase in intermittent generation from solar and wind power capacity has had a significant effect on price volatility in Continental markets and influenced price developments in the Nordic market.

Implementation of EU energy and climate regulations has and will continue to have a significant influence on energy prices and energy and climate policy in all EU/EEA countries. Emission trading has increased electricity prices by up to 50 percent in periods with high emission allowance

Generation and power sourcing in Norway



cost in Europe, including the Nordic market where electricity is predominantly generated by non-emitting sources. There is, however, an ongoing EU legislative process aimed at reducing emissions and consequently increasing future allowance prices. In order to prevent carbon leakage, the EU established guidelines in 2012 allowing national governments to support industries exposed to global competition. Actual compensation, which is dependent on national implementation, is established in Norway and Germany with conditions corresponding closely to the EU guidelines. Please see section Regulation and taxation - Aluminum regulation - climate gases later in this report for more information on this matter.

A common electricity certificate market for Norway and Sweden was established in the beginning of 2012 with the objective to support the development of new renewable generation capacity. The certificate system is designed to support an increase in annual renewable generation in the Norwegian/Swedish market of 28.4 TWh by 2020. The Swedish government has decided to prolong the scheme with a new national target between 2020 and 2030.

Strategy and targets - EN

Hydro is one of the largest power plant operators in Norway, with more than 100 years of experience in hydropower production. We intend to develop the value of our Norwegian assets and to use our extensive energy competence to secure competitive energy for our global activities. Operational excellence and on-going improvement continue to be a key priority to secure cost effective, safe and reliable production.

Maintain and develop our captive power capacity

Our ambition is to continually increase Hydro's share of captive power from renewable sources, and further explore opportunities within our existing concession areas in Norway.

Mid-term strategic targets Energy

	Ambitions	Medium-term target	Timeframe	2018 target	2017 target	2017 progress	Status
<i>Better</i>	Improve safety performance, strive for injury free environment	TRI<2 ¹⁾	2020	<2	<2	4.17	●
	Secure new competitive sourcing contracts in Norway post 2020	4-6 TWh	2020	0.5- 1 TWh	1 TWh	2.65 TWh ²⁾	●
	Support competitive energy supply as well as energy policy and framework development for other business areas	Progress	Continuous	Continuous progress	Continuous progress	In progress	●
<i>Bigger</i>	Robust industrial ownership for RSK - maintain physical power offtake post 2022	3.0 TWh	2022	Mature options	Mature options	Several options matured	●
<i>Greener</i>	Deliver additional production volumes through upgrades/ sustaining investments	~0.1 TWh	2020	Continuous progress	Continuous progress	~50 %	●

1) TRI, total recordable injuries per million hours worked, includes own employees and contractors.
 2) 1.65 TWh power sourcing in 2017.

Green light: Ambition on track and on target; Amber light: Ambition behind plan, but on target; Red light: Ambition might not meet the medium-term target

Securing and increasing the value of our energy assets is a key priority, based on our normal equity power production of 10 TWh.

The Norwegian Parliament amended the Waterfall concession act in June 2016. The amendment implies that private entities are allowed physical hydropower offtake for ownership stakes below 33.4 percent in hydropower companies (ANS/DA model). This will enable Hydro to maintain access to physical power from our assets subject to reversion through restructuring the assets within a one-third ownership position in a company with liability. See Government regulation - Energy regulation and taxation for further information on this matter. The change was an important step towards securing robust industrial ownership for our Røldal-Suldal (RSK) assets. In 2017, the process continued by further maturing options for RSK.

Optimize power asset management and operational excellence

We are continuously developing our expertise in optimizing power production and market operations. Our objective is to minimize the cost of industrial sourcing and maximize the value of our production assets, including active participation in power markets. We have made significant cost and safety improvements in our hydropower plant operations during the last decade, and we will continue to pursue further performance improvements. Safe, reliable, environmentally conscious operations remain among our top priorities going forward. Sourcing competitive energy for our global operations

Access to competitive energy is a major success factor in our value chain. We have large energy exposures on nearly every continent. Hydro is engaged in a number of initiatives to

identify and secure competitive energy supplies for Hydro's operations. In 2017, we entered our second contract based on wind-power with Markbygden ETT AB to source 1.65 TWh of renewable energy for a 19-year period beginning 2021. This contract will help enable continued competitive aluminium production in Norway. Utilization of wind power will contribute to strengthen Hydro's renewable base in Norway.

In 2017 Norsk Hydro Energia Ltda is in its third year of operation continuing as a vehicle for power market operations in Brazil. We are actively involved in promoting a responsible energy policy in the regions where we operate.

In 2017 Hydro acquired 25.9 percent of the shares in Corvus Energy, a Canadian company that connects lithium-ion based battery solutions and control systems. Corvus is a leading provider of solutions for electrifying ships. As an aluminium producer, we are using significant amounts of energy, and it is therefore important for us to follow the rapid technological development closely, also within energy storage.

Operations - EN

Hydro is a global energy player, purchasing and consuming substantial quantities of energy for its smelters, rolling mills and alumina refinery operations. In Norway, we are the largest private-owned power producer with operating and ownership interests in 26 hydroelectric power plants. Installed capacity was approximately 2,000 MW in total at the end of 2016 representing normal annual production of 10 TWh¹⁰⁾. We also purchase above 9 TWh annually in the Nordic Market under long-term contracts, mainly from the Norwegian state-owned company Statkraft.

(Ownership percent)	Rated capacity (MW) (100%)	Normal annual production (TWh) (Hydro share)	Key characteristics / concession period
Sogn (100 %)			
Tyin	374		<ul style="list-style-type: none"> Total catchment area 803 km² Concession expiration Tyin 2051 and Fortun 2057
Mannsberg	3		
Holsbru	48		
Skagen	252		
Fivlemyr	2		
Herva	35		
Total Sogn		3.2	
Røldal-Suldal Kraft (95.2%)			
Middyr	2		<ul style="list-style-type: none"> Total catchment area 793 km² Concession expiration 2022
Midtlæger	3		
Svandalsflona	20		
Novle	48		
Røldal	172		
Suldal I	169		
Suldal II	155		
Vasstøl	5		
Kvanndal	45		
Total Røldal-Suldal Kraft		3.0	
Telemark (100%)¹⁾			
Frøystul	45		<ul style="list-style-type: none"> Total catchment area 4 094 km² No reversion except for Frøystul 50% 2044, Moflåt and Mæl 2049
Vemork	204		
Såheim	188		
Moflåt	32		
Mæl	38		
Svelgfoss	96		
Total Telemark		3.5	
Skafså (33%)			
Åmdal	21		<ul style="list-style-type: none"> No reversion
Osen	15		
Skree	7		
Gausbu	7		
Total Skafså		0.1	
Vigeland (100%)			
Vigelandsfoss	26	0.2	<ul style="list-style-type: none"> Exempted from reversion
Total		10.0	

1) All plants in Telemark are wholly owned except for Svelgfoss, in which Hydro owns 70.22 percent.

Cost and revenue drivers

Production volumes and market prices are strongly influenced by hydrological conditions. Seasonal factors affect both supply and demand. Our cost base is relatively stable, however, volatile spot volumes and prices may cause significant quarterly revenue variations. The total power portfolio is being optimized in the market and in cooperation with our smelters.

Competitive strengths

- Power coverage until 2020 with new contracts covering major part of our sourcing requirements beyond 2020
- Substantial captive power through equity hydropower in

Norway and natural gas fired power in Qatar

- High share of renewable energy
- Low operating costs
- Operational and commercial competence
- Stable earnings and cash generation

Norwegian power assets

Our power plants are located in three main areas - Telemark, Sogn and Røldal-Suldal - and managed from a common operations center at Rjukan in Telemark. We also own the Vigeland power plant in Vennesla, and a 33 percent interest in Skafså Kraftverk ANS in Telemark.

Approximately two-thirds of our normal annual power production in Norway is subject to reversion to the Norwegian state with Røldal-Suldal (RSK) being the first significant production facility subject to reversion. See sections "Strategy and targets" and "Energy - regulation and taxation" for further information on this matter.

In addition to sourcing power for our aluminium operations, Hydro sells about 1 TWh of the electricity related to concession power obligations to the local communities where the power plants are located.

We optimize power production on a daily basis, according to the market outlook and the hydrological situation within Hydro's water reservoirs. By utilizing the flexibility of the hydropower plant systems and the volatility in the spot market price, Hydro aims to realize a premium above the average spot price. Our total Norwegian power portfolio, including our own production, is balanced in the market on the Nord Pool Spot power exchange. Spot market sales vary significantly between dry and wet years, with an average of 4.0 TWh.

Recently constructed power plants have increased production over the last several years. Two new, smaller power plants, Mannsberg and Midtlæger, were commissioned in late 2016, adding further to our production capacity.

Environment

Hydroelectric power is a renewable energy source. However, there are several potential environmental impacts associated with Hydro's operations including changes in aquatic and terrestrial habitats along the waterways and impact on recreation and tourism. All of our reservoirs are located within or in close proximity to national parks and other protected areas in mountainous regions in Southern Norway including Hardangervidda and Jotunheimen.

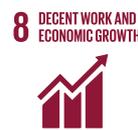


We limit vehicle traffic related to operations and maintenance of reservoirs that are within protected areas, and snowplowing to protect reindeer habitat. We monitor the impact of our operations on aquatic life in rivers connected to catchment areas. In order to mitigate the effects of water regulation on fish populations, around 86,000 fish spawn are launched annually in almost 40 lakes and rivers as part of concession requirements. Rehabilitation projects are also carried out to improve fish habitats and esthetic qualities.

Stone refuse tips from tunnel construction are registered and rehabilitation performed or planned except for those that are protected as cultural heritage.

People

Energy had 189 permanent employees in its consolidated activities at the end of 2017 and 20 temporary employees including apprentices. We emphasize a safe work environment and believe that we can promote this while also delivering on efficiency and low operating costs. We monitor and drive safety improvements through systematic, preventive activities focused on controlling risks.



Our workforce is our most important asset. My Way, our internal performance and development processes, and Hydro Monitor, our employee engagement index, are important tools to enhance our people and organization performance and development.

In 2017, nearly 100 percent of our employees participated in an appraisal dialogue through My Way. The Hydro Monitor survey is performed every second year, with the most recent completed in 2016.

Society

Energy's operations are all located in Norway and have limited impact on the communities in which we operate. For safety purposes, Hydro restricts public access to certain areas due to varying water levels.

Our supplier requirements regarding corporate responsibility form an integral part of our procurement process, including selecting contractors for project execution.

Regulation and taxation

Hydro is subject to a broad range of laws and regulations in the jurisdictions in which we operate. These laws and regulations impose stringent standards and requirements and potential liabilities regarding accidents and injuries, the construction and operation of our plants and facilities, air and water pollutant emissions, the storage, treatment and discharge of waste waters, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination, among other things. We believe we are in material compliance with currently applicable laws and regulations.

Aluminium - regulation

Environment

Hydro's aluminium operations are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which they operate. These laws and regulations, as interpreted by relevant agencies and courts, impose increasingly stringent environmental protection standards regarding, among other things, air emissions, the storage, treatment and discharge of waste water, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination. The costs of complying with these laws and regulations, including participation in assessments and remediation of sites, could be significant.

Primary aluminium production is an energy-intensive process that has the potential to produce significant environmental emissions, especially air emissions. Carbon dioxide and perfluorocarbons (PFCs), all greenhouse gases, are emitted during primary aluminium production.

In the European Union and other jurisdictions where Hydro operates, various protocols address transboundary pollution controls, including the reduction in emissions from industrial sources of various toxic substances such as polyaromatic hydrocarbons, and the control of pollutants that lead to acidification.

The European Union has adopted a number of pieces of legislation to address discharges of dangerous substances to water: The Water Framework Directive (2000/60/EC), as well as specific legislation on bathing waters, drinking water, nitrates in ground and surface waters, and urban wastewater treatment. The European Union has also adopted Directive 2008/105/EC on environmental quality standards in the field of water policy, which sets specific emission limit values for pollutants identified as priority substances and priority hazardous substances (PHS). Among the substances found on

the PHS list are polycyclic aromatic hydrocarbons, which are sometimes emitted by the aluminium industry. Any emissions, discharges and losses of such substances (i.e. PHS) must cease in the EU by 2025. Both the Water Framework Directive and the Directive on environmental quality standards were revised in 2013 (Directive 2013/39/EU), notably to expand the list of priority substances and to revise the emission limit values for the period after 2015. Hydro has addressed all the relevant requirements of the Water Framework Directive in cooperation with external consultants and the Norwegian Environment Agency. During 2015, the Norwegian plants implemented new water monitoring programs after review and approval of the Norwegian Environment Agency. This will form basis for future longer term water monitoring.

Hydro has a number of facilities that have been operated for a number of years or have been acquired after operation by other entities. Subsurface contamination of soil and groundwater has been identified at many such sites and may require remediation under the laws of the various jurisdictions in which the plants are located. Hydro has made provisions in its accounts for expected remediation costs relating to sites where contamination has been identified that, based on presently known facts, it believes will be sufficient to cover the cost of remediation under existing laws. Because of uncertainties inherent in making such estimates or possible changes to existing legislation, it is possible that such estimates may prove to be insufficient and will need to be revised and increased in the future. In addition, contamination may be determined to exist at additional sites that could require future expenditures. Therefore, actual costs could be greater than the amounts reserved.

We believe that Hydro is currently in material compliance with the various environmental regulatory and permitting systems that affect our facilities. However, the effect of new or changed laws or regulations or permit requirements, or changes in the ways that such laws, regulations or permit requirements are administered, interpreted or enforced, cannot always be accurately predicted.

Integrated pollution prevention and control

Under the EU Directive on Integrated Pollution Prevention and Control 1996/61/EC (the "IPPC Directive"), industrial installations require national operating permits based on best available techniques (BAT) for pollution prevention and control. The European Commission had issued a guidance document relevant for the aluminium industry: BAT Reference Document (BREF) for the Non-Ferrous Metals Industries (2001). Norwegian authorities established stricter emission limits for the aluminium industry in Norway applying from January 1, 2007, in line with the IPPC Directive. Hydro's aluminium production facilities comply

with those requirements. The IPPC Directive was amended by Directive 2010/75/EU on Industrial Emissions (IED), and the new requirements have been applicable since 2013. The related BREF document has also been updated and new BAT conclusions have been adopted in 2016 (Decision (EU) 2016/1032).

Greenhouse gas emissions

The aluminium industry was included in the EU CO₂-emissions trading system (ETS) in 2013. The system is regulated by the ETS Directive. The aluminium industry is affected by the scheme directly and also indirectly by the pass-through of CO₂ allowance costs by power producers into the power prices ("indirect effects").

Aluminium production is qualified as an industrial sector exposed to a significant risk of "carbon leakage" (i.e. risk of European operations losing market share to less carbon-efficient installations outside the EU). This means aluminium producers would, in principle, receive a high percentage of the emission allowances they need free of charge. The free allocation of emission allowances is agreed until 2020. Hydro is currently close to the benchmark values, thus the financial impact of these regulations is currently minor. However, due to increased production volumes and an annual reduction of free allowances, the need to procure allowances is likely to increase in the coming years.

Rolling operations are also covered by the rules and are allocated allowances free of charge based on an energy efficiency benchmark. Hydro is close to, or within, the benchmark values for its remelting activities.

Our primary aluminium production is presently most exposed to indirect EU ETS costs. To mitigate risk of carbon leakage due to indirect CO₂-costs, EU allows for national compensation of these costs.

Up to 2020 and except for Sør-Norge Aluminum AS, Hydro's fully owned Norwegian smelters do not qualify for indirect carbon cost compensation, as, according to the Norwegian regulations, Hydro's power sourcing (self-generated power and old sourcing contracts entered into prior to implementation of the ETS scheme) does not expose those smelters to increased electricity price due to the introduction of ETS.

The EU is in a process of finalizing the EU ETS for the 2021-2030 period, with the trilogue agreement reached between the Parliament, EU Member States and the EU Commission on November 9th 2017. The agreement gives additional safeguards to European industry with extra protection against the risk of carbon leakage, granting 100 percent free allowances up to sector's benchmark level.

Further, the Agreement allows Member States to grant partial compensation maximized in accordance with State Aid rules after 2020. We expect the Commission to update the State Aid Guidelines within end of 2019

The Paris agreement reached in December 2015, committed all the 195 signatory nations to keep the increase in the global average temperature "well below 2°C", by each signatory nation committing to do their best effort to reduce emissions, and reach a balance between greenhouse gas emissions sources and sinks (known as net zero emissions) "in the second half of this century". Such efforts could expose Hydro to additional costs in the various countries it operates.

Tariffs

Trade policy has a growing impact on Hydro's business both within the political and strategic agenda (regional and bilateral Free Trade Agreements, WTO framework, EU trade policy, etc.) as well as more local dimensions like tariffs, anti-dumping and other trade measures.

EU duty rates on imports of primary unalloyed aluminium are 3 percent, alloyed aluminium 6 percent, import duty for alloyed rolling slabs and alloyed extrusion ingot are 4 percent and 7.5 percent on the import of the majority on semi-fabricated products. Aluminium metal produced in the EEA (Norway and Iceland) is exempt from any such duty in the EU. There are also import duties on primary and semi-finished products in other material markets for Hydro.

The EU are negotiating bilateral free trade agreements with various third countries of interest to Hydro, which might, in time, lead to the elimination of aluminium tariffs with such third countries. For example, as of September 2017, customs duties on aluminium in the EU-Canada trade were eliminated. In the EU negotiations pipeline, there are agreements with the Mercosur countries (including Brazil), Japan, Indonesia, among others.

EU has also imposed certain anti-dumping duties on various aluminium products like foil, wheels and radiators, mostly on import from China.

On March 8 2018, President Trump signed a proclamation levying tariffs of 10 percent on aluminium imports. Exemptions for certain countries are currently under discussion. The final framework is yet to be decided and long-term effects are uncertain. In the short-term, Hydro does not expect any significant impact on its operations.

European chemical legislation - REACH and CLP
REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) is an EU regulation, adopted to improve the protection of human health and the

environment and applies to all chemical substances. REACH places the burden of proof on companies, which must identify and manage the risks linked to the substances produced or imported into EU.

Hydro has different roles under REACH, producer, importer and downstream user and is on track with our implementation of REACH. The final step of the implementation is the registration of substances produced and/or imported in volumes above 1 ton/year by June 1, 2018.

The CLP (classification, labeling and packaging) directive is based on the United Nations' Globally Harmonized System (GHS) and its purpose is to ensure a high level of protection of health and environment. CLP is legally binding and requires manufacturers, importers or downstream users of substances to classify, label and package hazardous chemicals appropriately. Hydro is mainly a downstream user of chemicals and follow the requirements including checking the SDS (safety data sheets) to ensure compliance with exposure scenario and safe use.

Taxation in USA

The US tax reform enacted on December 22, 2017 will result in significant changes to existing tax laws in several areas affecting Hydro. While the changes are expected to have a net positive impact on Hydro's US operations, the tax reform also makes it necessary to review the impact of interest limitation provisions and base erosion anti abuse tax on certain intercompany transactions.

From January 1, 2018 the corporate income tax rate (federal) has been reduced from 35 percent to 21 percent. Including state taxes the total tax rates will reduce from approximately 38 percent to 25 percent. As a consequence, the net deferred tax liability was reduced with effect from 2017.

Energy - regulation and taxation

The Norwegian regulatory system for hydropower production

The ownership and utilization of Norwegian waterfalls for i. e. hydropower production, other than small-scale power production, requires a concession from the Ministry of Petroleum and Energy. According to legislation passed in 2008, new concessions may no longer be granted to private entities such as Hydro. Moreover, private entities may not acquire nor own more than one-third of the shares or interests in companies that own hydropower plants.

Our waterfall rights and hydropower plants in Norway were acquired and developed under previous legislation that allowed for private ownership. Approximately one-third of

our normal annual production in Norway - about 3 TWh per year - was acquired before concession laws were enacted and does not contain any compulsory reversion to the Norwegian state. About two-thirds of our normal annual production, or 6 TWh per year, is subject to concessions granted at the time the waterfall rights were acquired. Such power plants operate under concession terms of Norwegian state reversion, with individual concessions expiring in two main parts around 2022 and 2050. Hydro's power plants at Røldal-Suldal, with a normal annual production of 3.0 TWh, will be the first significant production facilities to revert to the Norwegian state towards the end of 2022. Reversion to the Norwegian state can be avoided if the power plants, or two-thirds or more of the shares of the entity that owns the power plants, are sold to a public entity prior to reversion. In 2016, an important regulatory change was implemented in Norway that allows for private ownership to waterfalls through companies with liability, often referred to as ANS/DA, enabling further progress on Hydro's work to re-structure ownership and protect the value of the assets that are subject to reversion.

Under the current legislation, private entities like Hydro may lease a power plant for up to 15 years.

The Water Framework Directive (2000/60/EC) adopted by the EU and implemented in Norway includes requirements that also affect our hydropower production. Depending on the application of such requirements in practice, there is a risk that they may cause some reductions in production volumes. However, as Hydro's hydropower concessions are subject to time limitations and must be renewed, the requirements in the Water Framework Directive are not expected to imply any major change in Hydro's position.

Taxation of hydropower production in Norway

Profits from Hydro's hydropower production in Norway are subject to ordinary income tax at 24 percent for the income year 2017, being reduced to 23 for the income year 2018. Revenue for ordinary income tax purposes is based on realized prices. Dams, tunnels and power stations are, for tax purposes, depreciated on a linear basis over 67 years, and machinery and generators over 40 years. However, such fixed assets are depreciated over the concession period if that is shorter. Transmission and other electrical equipment are depreciated at a 5 percent declining balance.

A natural resource tax of NOK 13 per MWh is currently levied on water-generated electricity. The tax is fully deductible from the ordinary income tax.

In addition, a special resource rent tax, at 34.3 percent for the income year 2017, being increased to 35.7 percent for the income year 2018, is imposed on hydropower production in

Norway. Unlike the ordinary income tax, financial costs are not deductible against the basis for the resource rent tax. Uplift is a special deduction in the net income, computed as a percentage of the average tax basis of fixed assets (including intangible assets and goodwill) for the income year. The percentage, which is determined annually by the Ministry of Finance, essentially provides for a certain return on fixed assets above which income becomes subject to the resource rent tax. The percentage used to calculate the uplift for 2017 was 0.4 percent.

Revenue for resource rent tax is, with certain exceptions, calculated based on the plant's hourly production, multiplied by the area spot price in the corresponding hour. However, revenues from sales under certain long-term contracts are valued at contract price. Power supplied to Hydro's own industrial production facilities has for tax purposes been valued according to a price formula in historical Statkraft contracts, the so-called "St. Prp. 104 price". In 2016 the "St. Prp. 104 price" was repealed and has been replaced by a new reference price for 2017. The new reference price is based on the average contract price in long-term power supply contracts delivered to Hydro.

Bauxite and Alumina - regulation and taxation

Environmental regulation

Our operations in Brazil are subject to strict environmental regulations and license requirements. Particular regulations apply to our operations in the Mineração Paragominas S.A. (Paragominas) mine, due to its location in the Amazônia region.

One such regulation, known as the "Environmental Legal Reserve" requires that 80 percent of a property with native forest in the Amazônia region must be preserved, which means that a mine in the region cannot be developed without a sustainable forest management plan in accordance with the regulation. However, in Paragominas the legislation has established 50 percent as minimum requirement for legal reserve. However, based on existent regulations, the State has accepted Paragominas' request for exclusion of administrative servitudes (mining servitudes) from the calculation bases of the legal reserve and Mineração Paragominas S.A comply with the license's requirement with a legal reserve that occupies 13.6 percent of the total area, equivalent to 74 percent of the total area with the exclusion of the servitudes.

The practical implication is that for each rural property where Paragominas has current or planned mining operations, the Environmental Legal Reserve must be complied with and approved by, the Para state environmental agency SEMAS.

Under Brazilian environmental legislation, any activity that has the potential to pollute the environment must obtain an environmental license before the activity can start. Such licenses are generally granted by the state environmental agency, SEMAS. It is common that licenses granted are subject to a number of conditions to ensure regulatory compliance or to mitigate effects of the operations on the environment or local communities.

Each of our Brazilian operations currently hold several environmental licenses, including environmental installation licenses for respective construction and expansion phases, and environmental operational licenses for their ongoing operations.

Greenhouse gas emissions

In 2009, Brazil addressed its national policy on climate change through a federal law which set out ambitious voluntary targets for reducing greenhouse gas (GHG) emissions until 2020 – most of which has already been achieved. In the end of 2015 Brazil has submitted even more ambitious targets (37 percent cut in GHG by 2025 and 43 percent until 2030 compared to 2005 levels) during the United Nation Climate Change Conference in Paris. Since 2010 authorities have been developing sectoral plans to cut emissions and discussions continue regarding a sectoral plan for the aluminium industry, which currently follows a general plan developed in a cooperation agreement between the Ministry of Environment, the Ministry of Development, Industry and Foreign Trade and the National Confederation of Industry signed in 2012. The current plan has an ambition of reducing greenhouse gas emissions by 5 percent by 2020 compared to a "business as usual" scenario of projected emissions.

Mining regulation

Current framework

Exploration of minerals requires an exploration license from the federal mining agency DNPM. The license grants an exclusive right to explore an area, subject to several requirements including compensation to the land owner and payment of an annual exploration fee to the DNPM. Currently, the annual exploration fee is BRL 3.21 per hectare for the initial term of the license, and BRL 4.86 per hectare for any renewal periods.

If the exploration identifies viable resources, a mining concession is granted by the Ministry of Mining and Energy. The concession includes an obligation to pay royalties to the government and land owners. For bauxite mining, royalties are currently calculated in relation to sale based on gross revenue derived from sales of mineral assets after certain tax deductions and in relation to consumption, by calculated

revenue, considering the current price or the reference price defined by the regulatory agency (ANM) after a public hearing has been held. Government royalties amount to 3 percent and are allocated between local (up to 75 percent), state (15 percent) and federal (15 percent) governments, the last being distributed among the regulatory agency, federal funds and the federal environmental agency. Royalties due to land owners are 50 percent of the royalty due to the government.

New legal framework in 2017

On July 25, 2017 three Provisional Measures were published by the President of Brazil with the purpose of setting out a new mining milestone in replacement of the current legislation in force since 1967. The main changes targeted:

- a new Mining Royalties (“CFEM”) regime
- modernizing the Mining Code
- creating and organizing a Regulatory Mining Agency (“ANM”)

Out of the three Provisional Measures only two, regarding items CFEM and ANM above, passed through the Congress to become, after some amendments, bills of law and they are still subject to final approvals by the President. The Provisional Measure which changed the Mining Code did not pass through the vote and expired on November 28, 2017.

Mining royalties, which were previously based on the sale of the mineral product will now be based on the total sum of the receipts from sales, excluding taxes applicable to the commercialization of the mineral product, transportation and insurance costs.

The new mining agency, ANM, will replace the current mineral licensing body, the National Department of Mining Production (“DNPM”). Although incorporated under the same legal regime, as a fully-funded federal body (“autarquia”), the ANM has been set up under a special regime with a greater level of administrative independence and financial autonomy. It will also play a larger role in regulation, being responsible for implementing the guidelines, directives and policies of the legal mining framework.

Taxation in Brazil

The Brazilian tax system is complex and volatile, with a broad range of direct and indirect taxes levied at the federal, state and municipal levels. Brazilian tax authorities generally take an aggressive approach in tax audits, giving rise to a large number of tax disputes, which tend to take a very long time until finally resolved.

The general income tax rate in Brazil is up to 34 percent of net income. Some of our operations in Brazil have been granted income tax incentives encouraging investments in the northern states, reducing the effective tax rate on our operating income to a level of around 21 percent.

Federal value added tax (PIS/COFINS) is charged on sales at a rate of 9.25 percent. Buyers are entitled to PIS/COFINS tax credits of 9.25 percent on purchases of relevant input factors (except for import of goods, which is 11.75 percent), which may be used to offset PIS/COFINS or federal income tax liabilities. Exports are exempt from PIS/COFINS. Because most of Hydro’s production in Brazil is exported, we accumulate tax credits. Obtaining cash refunds of tax credits is complex and can take substantial time.

ICMS is a value added tax collected by Brazilian states on circulation of goods, energy and on services such as transportation and communications. ICMS tax rates vary from 7 to 25 percent, its calculation base is composed of the sales price of such goods and services.

Hydro’s main operations in Brazil, which are located in the state of Pará, have been subject to an ICMS deferral mechanism since 1993. A new regulatory regime for ICMS in Pará was published and took effect from July 17, 2015 for an additional 15-year period. Paragominas and Alunorte will continue to pay ICMS on diesel and fuel oil. Albras will pay ICMS on a 50 percent basis of electricity purchases. Other intra-state purchases will have a renewed deferral for the period. The cost of ICMS paid by Albras on electricity is expected to be offset by increased domestic sales of primary aluminium, at a sales price including ICMS. Goods that are destined for export are not subject to ICMS according to Federal Complimentary Law 87/1996. The new regulatory regime for ICMS is subject to Hydro’s compliance with certain conditions concerning verticalization of the aluminium value chain in Pará, contribution to development in the region and enabling sustainable growth in Pará.

Other information

As a public limited company organized under Norwegian law, Hydro is subject to the provisions of the Norwegian Public Limited Companies Act. Our principal executive offices are located at Drammensveien 260, Våkerø, N-0240 Oslo, Norway; telephone number: +47 2253 8100. Hydro’s internet site is www.hydro.com

Notes and references

- 1) Earnings from our investment in MRN are included in "Financial income."
- 2) The actual share depends on lifetime assumption for aluminium products in different applications and in different regions of the world.
- 3) Excluding the Neuss smelter which is part of Rolled Products
- 4) While Primary Metal and Metal Markets are reported as separate business areas, they are organized as one unit for operational purposes.
- 5) Aluminium standard ingot is a global aluminium product traded on the London Metal Exchange (LME).
- 6) Currency effects are comprised of the effects of changes in currency rates on sales and purchase contracts denominated in foreign currencies (mainly U.S. dollars and Euro for our Norwegian operations) and the effects of changes in currency rates on the fair market valuation of dollar denominated derivative contracts (including LME futures) and inventories, mainly translated to Norwegian kroner. These amounts can be very substantial. Hydro manages its external currency exposure on a consolidated basis in order to take advantage of offsetting positions.
- 7) Ingot inventory valuation effects are comprised of hedging gains and losses relating to standard ingot inventories in our metal sourcing and trading operations. Increasing LME prices result in unrealized hedging losses, while the offsetting gains on physical inventories are not recognized until realized. In periods of declining prices, unrealized hedging gains are offset by write-downs of physical inventories.
- 8) These hedging activities, which are designed to mitigate cash exposures, can generate significant underlying accounting effects, partly due to asymmetrical accounting treatment.
- 9) Recycling activities take place in both our Metal Markets and Rolled Products operating areas. Amounts presented reflect the combined activity of both business areas.
- 10) Annual hydropower production can vary by as much as 20 percent in either direction, depending on variations in hydrological conditions.

Viability performance

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QUICK OVERVIEW

Hydro's mission is to create a more viable society by developing natural resources and products in innovative and efficient ways.

In our terms, pursuing viability comprises a specific way of bridging viability and business, and a set of performance areas where we measure our progress.

Our viability performance reporting consists of this section and the Viability performance statements, both in Hydro's Annual Report 2017, as well as the GRI index at www.hydro.com/gri

Following the acquisition of Sapa on 2 October 2017, we have updated Hydro's materiality analysis to take into account the new business area Extruded Solutions. General information includes Extruded Solutions unless otherwise stated. Hydro's mid-term targets do, however, not yet include the new business area. For more information about Extruded Solutions, please see the Business description earlier in this report.

We have an integrated approach to our reporting, and our Viability performance should also be seen in context with the other parts of Hydro's Annual Report 2017.



Direct greenhouse gas emissions from Hydro's consolidated activities

Million mt CO₂e



Figures include historical emissions from current operations.

Viability - The Hydro Way

The Hydro Way is our approach to business. It's an approach that has lived within Hydro since 1905 and guided our development over the years. The Hydro Way originates from our company's identity - our unique set of characteristics - and constitutes a way of doing things that differentiates us from other companies.

The Hydro Way explains how we run our business through:

- Our mission
- Our values
- Our talents
- Our operating model

These principles help us set priorities and serve as a reference point when questions arise. Our mission describes our higher purpose and is supported by our values and our talents, which define how we conduct our business:

Hydro's mission is to create a more viable society by developing natural resources and products in innovative and efficient ways.

In order to ensure a uniform high standard, Hydro's constituting documents and global directives lay down requirements for our operations, see page 142.

All elements of Hydro's viability performance are integrated in Hydro's overall group strategy. In addition, we have specific support strategies e.g. on climate change, environment and people - as described in this section.

Hydro has been listed on the Dow Jones Sustainability Indices (DJSI) each year since the index series started in 1999. We are also listed on the corresponding UK index FTSE4Good, and the UN Global Compact 100 stock index.

Our reporting approach

We have based our viability reporting on The Hydro Way since 2004. Together with risk analysis and an extensive stakeholder dialogue we have defined the main elements of our reporting:

- Energy and climate change
- Resource management
- Integrity, human rights and community impact

- Organization and work environment
- Innovation

We are using the GRI Standard 101 in defining which lower-level topics and indicators that are material to report on.

Following the acquisition of Sapa on 2 October 2017, now the business area Extruded Solutions, we made a thorough review of the materiality analysis to make sure it also reflects Extruded Solutions. The main changes are described as part of the materiality analysis on the following page. The analysis is also based on the continuous stakeholder dialogue performed by Hydro with its key stakeholders, and collected and evaluated by relevant specialists and leaders. The materiality analysis is updated annually and approved by Hydro's Corporate Management Board.

The most material aspects related to our viability performance are all included in the Board of Directors' report, which gives a high-level overview of Hydro's strategic direction, strengths and challenges. This information is further elaborated in other parts of this annual report and in the GRI index at www.hydro.com/gri

The information has been reviewed by Hydro's Corporate Management Board, which has also approved this annual report. The board of directors has approved the complete Board of Directors' report including the country-by-country report and the UK Modern Slavery Act transparency statement. Read more about our reporting principles and materiality process on page V2-V3.

The Viability performance section should be read in context with the other parts of the annual report, in particular:

- Letter to shareholders on page 8
- Board of directors' report on page 13
- Business description on page 35, including strategic targets and business area specific issues related to technology and innovation, environment and society
- Risk review on page 125
- Corporate governance on page 141

The underlying details in the reporting are based on different reporting frameworks that are important to us, including the UN Global Compact, the GRI Standards, the International Council on Mining and Metals' (ICMM) 10 principles and Position Statements and the Aluminium Stewardship Initiative's (ASI) 11 principles and underlying criteria. The GRI index at www.hydro.com/gri also shows Hydro's adherence to the UN Global Compact, ICMM and how we relate to ASI, UN Sustainability Goals and UN Guiding Principles on Business and Human Rights - and shows how the different frameworks connect with each other.

Hydro's materiality analysis 2017

Topics are prioritized in four quadrants, but not prioritized internally in each quadrant



The matrix is based on the GRI Standard 101 Foundation 2016 and has been approved by Hydro's Corporate Management Board. The green topics represent those that are most material to Hydro, while topics that are strikethrough, are considered not material.

Topics marked (HD) are defined by Hydro.

The main changes compared to 2016 are:

- "Product quality and liabilities" has become a most material topic following the acquisition of Sapa, now the Extruded Solutions business area in Hydro.
- The most material topic "Innovation" has been renamed "Innovation and design thinking", also following the acquisition of Sapa.
- The former not material topics "Customer health and safety" and "Products and services" has been merged with "Product quality and liabilities", see comment above.
- The material topics "Equal remuneration for men and women", "Incidents of discrimination" and "Disabilities" have been merged with the most material topic "Diversity and equal opportunity".
- The material topics "Environmental expenditures" and "Other human rights" are following the transition to the GRI Standards covered by other topics.

We have chosen to merge and rename certain aspects in the matrix to make the titles more relevant to Hydro and thus also more intuitive to our stakeholders. An overview of these changes can be found on www.hydro.com/gri

Energy and climate change

Alumina refining and electrolysis of primary aluminium are energy intensive, and constitute the majority of Hydro's greenhouse gas (GHG) emissions, and the energy source is a decisive factor. On the other hand, aluminium can save significant amounts of energy and GHG emissions in the use phase.



Climate change

Hydro's ambition is to be carbon-neutral in a life-cycle perspective by 2020. Carbon neutrality can be defined in many ways, and our definition is the balance between the direct and indirect emissions from our own operations, and the savings of applying our metal in the use phase.

We work closely with customers to develop products that save energy and reduce emissions. Examples include lighter transportation, better packaging to reduce cooling needs and food spoilage, and aluminium façades that lead to lower operating costs and enable buildings to generate as much energy as they use during operation.

By taking the life-cycle perspective of our production, we are aiming to reduce total GHG emissions globally through our activities.

Mid-term strategic goals: Energy and climate change*

	Ambitions	Medium-term target	Timeframe	2018 target	2017 target	2017 progress	Status
<i>Better</i>	Extend technology lead with Karmøy technology pilot	Start production	2018	100 % complete	100 % complete	First metal Jan 2018 ¹⁾	●
<i>Bigger</i>	Increase nominal automotive Body-in-White capacity	200,000 mt/yr	2017	200,000 mt/yr	200,000 mt/yr	Delayed ramp-up	●
	Complete ramp-up of UBC recycling line	>40,000 mt/yr	2017	Ramp-up completed	Ramp-up completed	Delayed ramp-up	●
	Increase hydropower production capacity through upgrades/sustaining investments	~ 0.1 TWh	2020	Continuous progress	Continuous progress	~ 50%	●
<i>Greener</i>	Become carbon-neutral from a life-cycle perspective	Zero	2020	Establish scenario analysis	Review climate risk analysis	On track	●
	Deliver on reforestation ambition	1:1	Continuous	1:1	1:1	On track ³⁾	●
	Deliver on reforestation ambition	Eliminate historical rehabilitation gap	2020	Approach target	-	On track	●
	Increase recycling of post-consumer scrap ²⁾	>250,000 mt/yr	2020	155,000 mt/yr	155,000 mt/yr	148,000 mt/yr	●
	Continuously reduced specific GHG emissions from electrolysis	EU benchmark	Long-term	1.58 mt CO2e/mt aluminium	1.57 mt CO2e/mt aluminium	1.59 ⁴⁾ mt CO2e/mt aluminium	●

*) All targets and progress are Hydro excluding Extruded Solutions

1) The Karmøy Technology Pilot is on track to ramp-up to full production during 1H 2018 as planned, but did not meet the target of first metal by year-end 2017.

2) Includes Hydro's share of recycling in Alunorf

3) We revised the target in 2017 to 1:1 rehabilitation of areas available for rehabilitation. From 2018 the target will also cover two hydrological seasons. This revised definition takes into account the nature of the mining cycle, and the time lag is necessary to ensure quality rehabilitation to restore biodiversity.

4) The figure might be subject to minor change following final verification by authorized third party according to EU ETS regulation

Green light: Ambition on track and on target; *Amber light*: Ambition behind plan, but on target; *Red light*: Ambition might not meet the medium-term target

Hydro's climate strategy is an integral part of our overall business strategy, aiming at driving improvements and development within the company. Consequences to the climate strategy is also a criteria for all significant investment decisions. The strategy includes reducing the environmental impact of our operations as well as taking advantage of business opportunities by enabling our customers to do the same. While some production plants or products might have a higher carbon footprint than others, the overall company balance (the difference between emission and benefits) should be zero or negative by 2020.

While Hydro's total GHG emissions are expected to increase toward 2020, mainly due to increased production of alumina and primary aluminium, we expect to achieve the 2020 target mainly through:

- Increased production of primary aluminium in Norway, which is based on hydropower
- Increased recycling
- Increased deliveries to the automotive sector

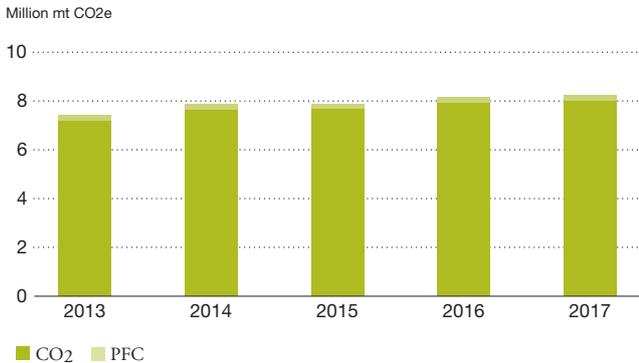
Hydro is on track toward carbon neutrality in 2020. It will, however, require that we succeed in increasing our Norwegian capacity according to plan, and that we are able to increase our recycling of post-consumer scrap. With the

increase of GHG emissions from Extruded Solutions, it is uncertain whether their share of post-consumer scrap is sufficient to compensate. Our carbon neutrality is also sensitive to our penetration into the automotive market. The planned fuel switch project at Alunorte is not included in the forecast by 2020 and will, if realized, further improve Hydro's carbon balance.

In 2017, Hydro started a review of its climate-related risks, including physical, technological, commercial, legal and reputational risk. Hydro also became a signatory to the Task Force on Climate-Related Financial Disclosures (TCFD). The review of Hydro's climate-related risks will be finalized in 2018, and will also include scenario analysis, see page V40 for more information.

Hydro works through aluminium associations to establish a level playing field for global aluminium production. We support the development of international frameworks on climate change and greenhouse gas emissions and participate actively in organizations such as the World Business Council for Sustainable Development (WBCSD) and the International Emissions Trading Association, to provide business solutions to the climate change challenge. In addition, Hydro also engages actively in initiatives fostering increased recycling and material stewardship, and is a member of the Aluminium Stewardship Initiative.

Direct greenhouse gas emissions from Hydro's consolidated activities

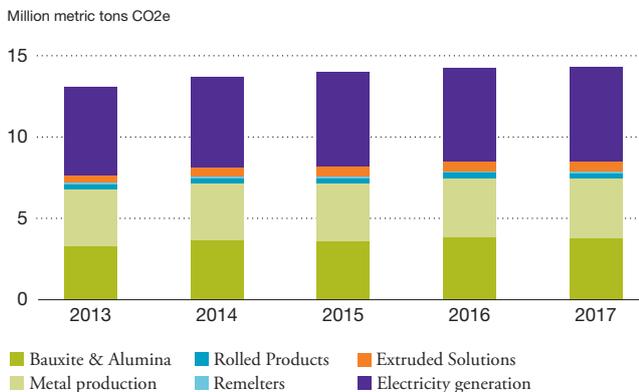


Using viable energy sources

The overall carbon footprint of primary aluminium is highly dependent on the source of energy used to produce the metal. The energy source available is a determinant for localization of Hydro's investments and for the carbon footprint of the metal produced. About 70 percent of Hydro's production of primary aluminium is based on renewable power.

In order to ensure continued supply of renewable power to Hydro's operations in Norway after 2020, Hydro entered into its second wind power contract in 2017. With a fixed annual base load supply of 1.65 TWh per year from 2021-2039, the contract with Markbygden ETT is known to be the largest wind power purchase agreement in the world. Combined with the wind power agreement with Nordic Wind Power

Greenhouse gas emissions from Hydro's ownership equity



Greenhouse gas emissions based on Hydro's ownership equity, direct emissions from production in Bauxite & Alumina, Primary Metal, downstream operations and the remelters, are comparable to Scope 1 emissions as defined by WBCSD/WRI GHG Protocol. Emissions from electricity generation are based on electricity consumption and IEA "CO2 emissions from Fuel Consumption 2014 factors". This is comparable to Scope 2 emissions from purchased electricity. In addition, the reported emissions from electricity include emissions from Hydro's ownership equity in the Qatalum gas-fired power plant. All figures include historical emissions from current operations.

DA in 2016, Hydro has secured wind power contracts from 2020 to 2039, with a peak capacity of 2.65 TWh per year from 2021-2035.

The Qatalum aluminium plant has natural gas as its energy source. The International Panel on Climate Change recognizes natural gas as an important transition fuel that can help reduce global temperature increases. Hydro's 50 percent ownership in Qatalum represents about 15 percent of our primary metal production capacity.

In 2017, Hydro acquired 25.9 percent of the Canadian energy storage system company Corvus Energy.

Learn more about Hydro's electricity production under Energy in the Business description in this report.

Reducing energy consumption and emissions in production

Energy efficiency is an important part of Hydro's ongoing efforts to reduce costs and CO₂ emissions. Our Alunorte alumina refinery in Brazil is among the most energy-efficient refineries in the world. During 2018, Bauxite & Alumina will develop a technical concept for the replacement of part of our fuel oil consumption at the Alunorte alumina refinery to more climate and cost-efficient natural gas.

Average electricity consumption at our consolidated smelters is 13.9 kWh per kilogram primary aluminium produced, compared to a global average of 14.0. During full-scale testing, Hydro's HAL4e technology achieved a level of 12.4 kWh per kg aluminium produced, and we are targeting a further reduction to levels below 12 kWh per kg at our test cells in the Årdal smelter. Hydro's tested electrolysis technology represents potential electricity reductions of 10-14 percent. The Karmøy technology pilot will test this technology on an industrial scale, see page 102-104.

Reducing CO2 emissions through the use of our products

Aluminium has significant carbon footprint benefits in its use phase, especially due to its lightweight properties. As Hydro has limited production of end-consumer goods, the calculation of use-phase benefits can only to some degree be based on product specific data. We therefore use acknowledged, independent LCA (Life Cycle Assessment) studies to calculate the use-phase benefits in combination with product shipment data. Use phase benefits can best be documented in the automotive sector.

We work closely with customers to develop products that save energy and reduce emissions. For more information, see the section Innovation and design thinking, later in this report.

Increasing recycling of aluminium

The inherent properties of aluminium make recycling attractive. It can be recycled infinitely without degradation in quality, and recycling requires 95 percent less energy than primary aluminium production. A strong position in recycling of post-consumer aluminium scrap is necessary for us to be able to reach our carbon neutrality ambition.

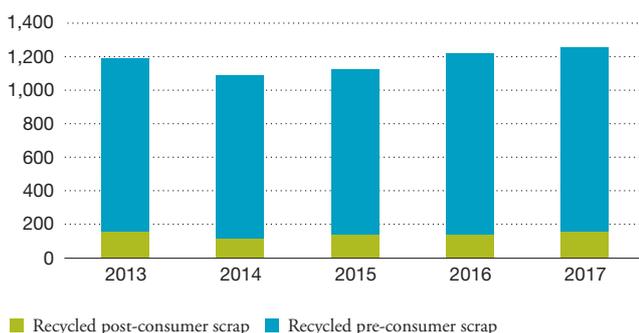
Hydro is a large remelter and recycler of aluminium. We remelt process scrap from our own production and from other companies, as well as post-consumer scrap from the market. Through two specific projects we are increasing our capacity to process post-consumer scrap by a total of 80,000 metric tonnes, in Clervaux, Luxembourg, and by a new used beverage can line in Neuss, Germany. The ramp-up in Neuss is further delayed, but is expected to be at the targeted run-rate by end of 2018.

We have developed processes to combine clean scrap with post-consumer scrap, and we plan to invest in existing remelters that can increase post-consumer scrap capacity by up to 20 percent. Hydro's patented technology in scrap shredding and sorting is under further development, making it possible to produce high-quality extrusion and sheet ingot from post-consumer building and automotive scrap.

A pilot line was installed in the R&D center in Bonn in 2017. The aim is to develop the technology for sorting of scrap from building and transport applications up to industrial scale.

Recycling

Thousand mt



We have developed a new recycling-friendly alloy (RFA) for extruded building applications that provides the same properties as our current alloy, but with much higher levels of alloying elements like zinc and copper.

In 2017, Hydro launched a low-carbon aluminium billet product. The product, 75R, is independently certified and produced at our remelters and contains a minimum of 75 percent post-consumer scrap.

About 95 percent of the aluminium from automotive applications and commercial buildings in Europe is being recycled at end of life.

For packaging, similar high values have already been achieved for specific applications and regions, while there is still further potential for optimization in Europe as a whole. Hydro and our partners are supporting initiatives to increase recycling of aluminium packaging throughout Europe. We cooperate with producers of beverage cans, drinks and food, and other advocacy groups and industries, to develop specific activities aimed at raising public awareness about the importance of recycling.

Resource management

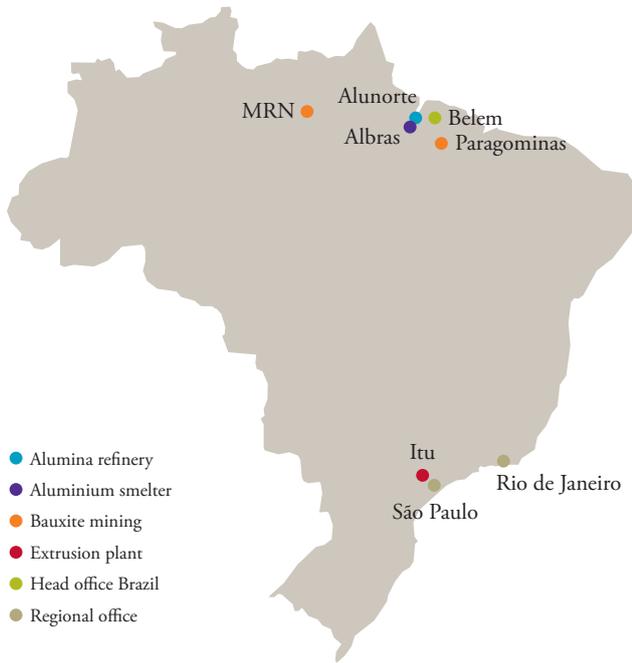
Hydro's bauxite mining and alumina refining activities in Pará in Brazil include open pit mining and the handling of significant amounts of tailings and bauxite residue, the latter also known as red mud. Preserving biodiversity is important related to Hydro's activities in Pará and to the water reservoirs for our hydropower production in Norway (see page 71). Hydro has primary aluminium production in Australia, Brazil, Canada, Germany, Norway, Qatar and Slovakia. For information about the situation at Alunorte, see page 87-88.



In addition to the existing climate and recycling strategies, we prioritize the following areas:

- Ecosystems and biodiversity
- Water stewardship
- Waste and efficient resource use
- Product stewardship

Operations in Brazil



which gives us the possibility to participate in the development of industry practices on the environment as well as an arena for sharing best practices.



When developing new projects, we examine environmental issues ahead of time, and we strive for achieving no net loss of biodiversity. This is an area under development internationally, and we participate in the Cross Sector Biodiversity Initiative (CSBI), which is a joint effort between IPIECA (the petroleum industry), ICMM (the mining industry) and the Equator Principles Association.

Although originally set for 2017, the 1:1 land rehabilitation target will continue to apply from 2018 onwards, as it provides a solid driver for rehabilitation. However, the target will become a rolling target, aiming for a 1:1 rehabilitation of areas available for rehabilitation over two hydrological seasons after release. This revised definition takes into account the nature of the mining and rehabilitation cycles, and the time lag necessary to ensure quality rehabilitation to restore biodiversity. It also takes into account that land periodically needs to be set aside for temporary infrastructure in order to safely operate the mine.

The 2020 target of closing the historical rehabilitation gap inherited from the former operator is on target and remains unchanged. In 2017, of the 185 hectares (ha) rehabilitated, 10 ha were from the historical rehabilitation gap, leaving a gap of 8 ha to be closed by 2020. It is important to actively manage and close the historic gap, as it is located in areas that

Ecosystems and biodiversity

The ongoing loss of biodiversity and degradation of ecosystems represent long-term risks for the industry and society at large. We see a need for more sustainable frameworks and participate in several initiatives, including the World Business Council for Sustainable Development (WBCSD) Ecosystem Program. Hydro is a member of the International Council on Mining and Metals (ICMM),

Mid-term strategic goals: Resource management*

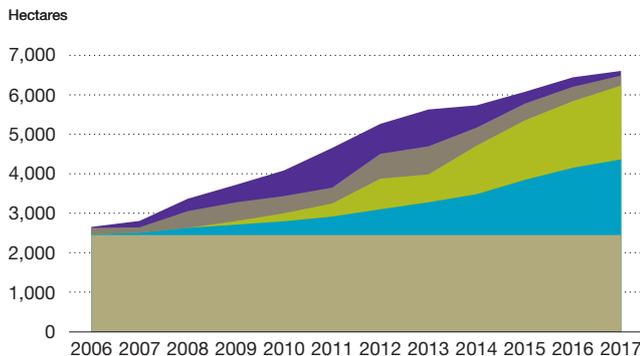
	Ambitions	Medium-term target	Timeframe	2018 target	2017 target	2017 progress	Status
<i>Better</i>	Best Available Technology or similar implemented for treatment, storage and use of bauxite residue	New press filter in full operation	2019	Ramp-up of press filter completed	Ramp-up of press filter completed	Ramp-up delayed	●
	Reduced waste to landfill	60 percent reduction compared to a 2010 baseline ¹⁾	2020	Fully achieve 2017 target and extend to cover Extruded Solutions	Key waste streams identified with plans in place to manage them	Not all plans fully developed	●
<i>Bigger</i>							
<i>Greener</i>	Deliver on reforestation ambition	1:1 ²⁾	Continuous	1:1	1:1	On track ²⁾	●
	Deliver on reforestation ambition	Eliminate historical rehabilitation gap	2020	Approach target	-	On track	●

*) All targets and progress are Hydro excluding Extruded Solutions

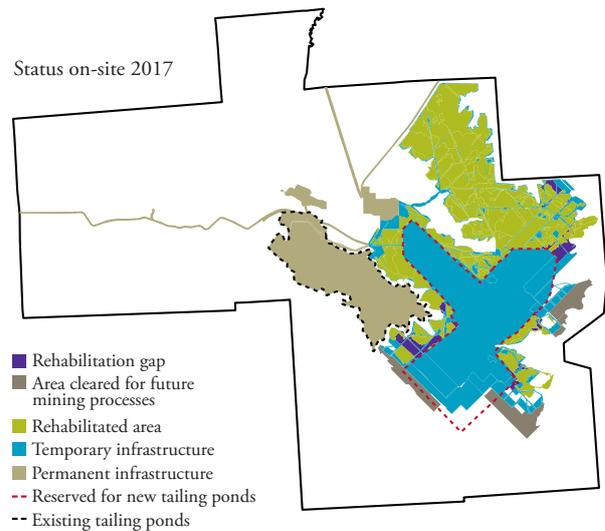
1) Excluding tailings and bauxite residue. It also excludes construction and demolition waste.

2) We revised the target in 2017 to 1:1 rehabilitation of areas available for rehabilitation. From 2018 the target will also cover two hydrological seasons. The revised definition takes into account the nature of the mining cycle, and the time lag is necessary to ensure quality rehabilitation to restore biodiversity.

Land use and rehabilitation – Paragominas



Permanent infrastructure includes areas related to administrative buildings, industrial facilities, tailings dams, the pipeline to Alunorte and permanent roads. Temporary infrastructure includes among other things temporary roads and areas dedicated for new tailings dams.



become progressively harder to access as the mining front moves away from them. See note E6.2 to the Environmental statements for further information.

When tailings dams are closed, they need to settle for minimum five years before they will be available for rehabilitation. We will then get a new rehabilitation gap. This will differ from the rehabilitation gap that Hydro adds to on a daily basis as a result of its mining (due to the specific nature of tailings) and will require a tailor-made rehabilitation strategy.

To increase our knowledge and secure a science-based approach to rehabilitation, the Biodiversity Research Consortium Brazil-Norway (BRC) was established in 2013. BRC consists of the University of Oslo, Norway, and its Brazilian partners Museu Paraense Emílio Goeldi, Federal University of Pará and Federal Rural University of the Amazon in addition to Hydro. The scope of the consortium is to create a research program connected to our mining operations. The aim is to strengthen Hydro's ability to preserve natural biodiversity and to better rehabilitate the areas where we mine bauxite. The partnership agreement was extended for another five years in 2017. 13 research projects have been generated so far, from greenhouse gases to soil and insects.

Since 2013, Hydro in Paragominas has used the nucleation method. Topsoil is unevenly distributed to simulate natural landscape and trap rainwater. Piles of cut wood are distributed, creating shelters for animals and improving growing conditions for some plant species. The ambition is to establish a forest system of the same structure that is typical of the forest in the area and to secure as much

biodiversity as possible. The method has been approved for testing in MRN and Paragominas by the relevant environmental authorities and is showing encouraging results.

All of our hydropower reservoirs are located within or in close proximity to national parks and other protected areas in mountainous regions in southern Norway, including Hardangervidda and Jotunheimen. We strive to minimize the potential environmental impacts associated with Hydro's operations including changes in aquatic and terrestrial habitats along the waterways and impact on recreation and tourism. See page 71 for more information.

Water

In Hydro's understanding of the SDG 14 *Life below water*, we have chosen to include our impact on freshwater as well as seawater. Our main impact on waterways comes as a result of discharges to external water bodies, primarily in Brazil (to rivers) and Norway (to rivers, lakes and fjords). Where the authorities deem it appropriate, these discharges are regulated by relevant permits. Water withdrawal of groundwater from own wells and through public water works may in addition have an effect on life below water.



Hydro uses the WBCSD global water tool to perform an annual review of water withdrawal from water-stressed areas. For 2017 we have used an updated version of the tool, and included Extruded Solutions.

Following the update of the WBCSD global water tool, Germany is no longer classified as water-stressed, which significantly reduced Hydro's withdrawal of water from water-stressed areas.

The mapping of Hydro's sites using the WBCSD global water tool in 2017 showed that 0.4 million m³ of our overall fresh-water input came from water-stressed areas, with regard to annual renewable water supply (according to the definition used by WBCSD). This represents 0.5 percent of Hydro's overall fresh water input. Qatalum in Qatar relies on public water supply produced by desalination. Seawater is used for wet cooling towers at the power plant as well as for wet scrubbers at the potline fume treatment plants.

In 2017, Hydro developed a basic water risk analysis tool, covering water use and discharge, to be applied across key operations. Preliminary findings indicate that operating in water-stressed areas is not a key risk for these operations. This led to Hydro's previous target on reducing water use in water-stressed areas to be put aside. Instead, more significant risks are linked to the management of excess water and the quality of the external water bodies into which we discharge our used water. Extruded Solutions was not a part of the preliminary study.

Our alumina refinery Alunorte in Brazil obtains an important part of its water supply through the bauxite slurry that is transported from Paragominas by pipeline. Paragominas' and Alunorte's water use is close to their current regulatory limits, to learn more, see note E2.3 to the environmental statements. Since 2015, there is a water tax within the state of Pará.

A multidisciplinary team commissioned to improve the existing water balance studies for Alunorte and Paragominas, has identified the need of a new water extraction point for Paragominas. There are challenges related to water permits at both Paragominas and Alunorte. This will be further evaluated in 2018.

The Norwegian Environment Agency has required Hydro to clean up historical contamination in the Gunnekleiv Fjord by 2022.

For more information about the impact of our water reservoirs related to hydropower production, please see page 71.

Waste and efficient resource use



Our goal is to minimize the amount of waste produced when technically and economically feasible and then reuse or recycle it. When this is not possible, we shall deposit it in a secure way to minimize adverse effects to people and the environment.

Tailings and bauxite residue

Tailings from bauxite extraction consist of mineral rejects from the extraction process mixed with water and flocculants. The tailings at Paragominas are stored in dedicated tailings dams, where the particles settle. Run-off water is collected in a separate water pond and reused in the process. The water pond secures overflow to the river during heavy precipitation. The run-off water is monitored, and the water quality meets the requirements set by the authorities.

In Paragominas, a new tailings system was completed in 2017. The new tailings dam is situated on a plateau where mining has been finalized. The old tailings system is constructed in a shallow valley. When tailings dams are closed, they need to settle for minimum five years before being available for rehabilitation.

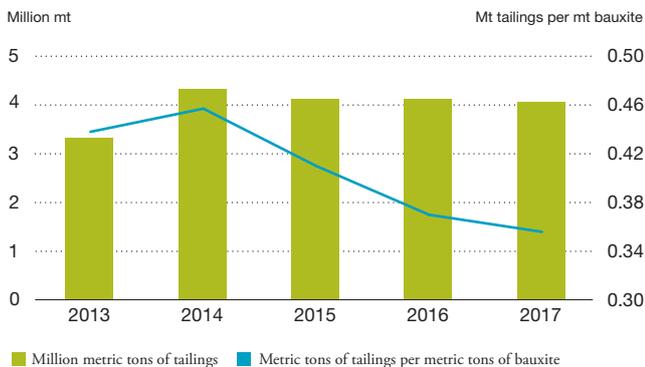
Bauxite residue, also known as red mud, is a by-product of the alumina refining process. Its disposal is challenging due to large volumes and the alkaline nature of the liquid component of the residue. The residue is washed with water to lower the alkalinity and to recover caustic soda for reuse. Hydro uses an enhanced dry stacking technology for disposing of bauxite residue which allows for residue storage at steeper slopes, reducing the disposal area requirements. This reduces the relative environmental footprint. The construction of a new bauxite residue deposit area at Alunorte includes more advanced press filters. These are capable of reducing the residue moisture content to 22 percent, down from 36 percent achieved with the previous drum filters technology. By 2019, the press filtration technology is planned to handle all bauxite residue generated by Alunorte.

The dams and deposits are frequently inspected by Hydro and Brazilian authorities, and are also subject to inspections by e.g. Norwegian Geotechnical Institute (NGI) and Geomecanica. The last NGI visit to Paragominas and Alunorte took place in 2016 and resulted in an action plan to secure the long-term viability of the tailings dams and bauxite residue storage areas.

In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, led to regional flooding. Surveillance authorities inspected Alunorte's alumina refinery and surrounding areas, following reports of possible leakage and water contamination. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

After the extreme rain event and the following external inspections and internal reviews, instances of unlicensed

Tailings from bauxite production



discharges of contaminated rain and surface water have been identified. The plant has notified authorities about the discharges which were discovered by the plant.

Measures are being implemented to resolve the situation at Alunorte, including establishing an internal task-force to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions.

In addition, Hydro has implemented measures to assist local communities in Barcarena with health and water.

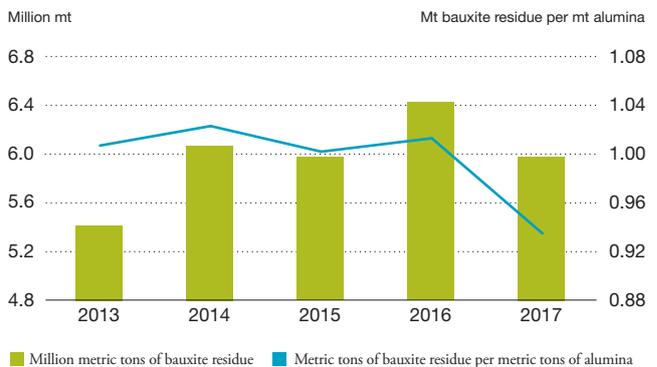
Hydro participates in international collaboration projects investigating possibilities to use bauxite residue as a resource. Additions to cement and other construction materials are areas that will be pursued. Hydro is also investing in R&D to reduce the total alkalinity of the residue.

Other waste

Hydro's ambition is to reduce land-filling of total waste - excluding tailings and bauxite residue - by 60 percent within 2020 from a 2010 baseline, see note E5.3 to the environmental statements for further information.

Spent potlining (SPL) from the electrolysis cells used in primary aluminium production is defined as hazardous waste. The production of SPL varies with the relining of smelter cells, which is normally done every 4-7 years for established smelters. New plants will get relining peaks at the same interval after start-up. For information about SPL production, see note E5.2 to the environmental statements.

Bauxite residue from alumina production



Since 2012, parts of the anode waste is used by Norcem cement plant in Brevik, Norway (part of Heidelberg Cement). The carbon material from Hydro is being used as an alternative fuel in the production process where high temperature incineration ensures safe treatment of hazardous components.

Hydro has an agreement with a refractory supplier to recycle part of the bricks coming from relining the anode baking furnace. These agreements are examples of efficient resource use that is sound for the environment by substituting fuel or raw materials while reducing landfill and saving landfill costs.

Qatalum delivers all first-cut SPL, which is the most energy-rich and contaminated part of the SPL, to its neighbor Qatar Steel, which uses it in production. In addition, Qatalum has developed in cooperation with local cement plants a solution for co-processing of second-cut SPL.

Albras has a significant stock of SPL. This is being reduced according to the annual plan and target, delivering to the cement industry in Brazil. Proper handling of SPL and other waste is a part of the planned rehabilitation work in Hydro's former aluminium plant Kurri Kurri, Australia, where production ended in 2012.

Dross is a mixture of metallic aluminium, alloy components and metal oxides that is formed on the surface of liquid aluminium. Hydro's casthouses have treatment facilities to recover as much aluminium as possible from hot dross. The residual dross is sent to recovery of more aluminium and further reduction of dross waste.

The mass balance of mercury at Alunorte in Brazil was concluded in 2017. To reduce emissions to air, four filters are planned installed on all four chimneys. The first will be installed in 2018. Based on the experiences, the three other filters are planned installed by the end of 2019.

Product stewardship

Hydro engages in dialogue with customers and other stakeholders regarding the environmental impact of our processes and products. We perform life-cycle assessments (LCAs) for all major product groups to identify improvement potential. We also assess other aspects such as energy and material consumption, toxicity and recyclability.



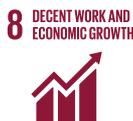
Over the past two decades, Hydro and other aluminium companies have developed a pan-European network of national

initiatives to promote and recycle aluminium packaging. Many of these national activities are emphasizing education and have developed projects with primary and secondary schools and universities to stimulate the next generation to make their contribution to a better environment.

Hydro is an active member of the Aluminium Stewardship Initiative, see page V38.

Integrity, human rights and community impact

As a global aluminium company with mining interests, ensuring responsible conduct in relation to society at large is important throughout Hydro's activities. We have to consider our impact on society, spanning from construction to divestment activity, as well as the exposure to corruption and human rights violations, both within our own operations and in the supply chain.



We require adherence to external laws and regulations as well as internal directives relating to identifying and mitigating corruption risks and human rights violations, and managing our community impact.

Some of the measures we pursue to ensure integrity and responsible behavior include:

- Zero tolerance of corruption
- Ongoing human rights due diligence, including joint ventures and suppliers
- Continuous stakeholder engagement linked to existing operations and new projects

During 2017, we had a thorough process on how to integrate and prioritize the UN Sustainable Development Goals (the SDGs) strategically and set the overall goals for our corporate social responsibility strategy. For more information about our approach to the SDGs, see page 5 and V38.

Hydro's Corporate Social Responsibility (CSR) is built on the basis of making a positive difference by strengthening our business partners and the local communities where we operate. To do this, we target the fundamental drivers of long-term development. In line with stakeholder expectations and needs, and through strong partnerships, we aim to:

- Contribute to quality education in our communities
- Promote decent work throughout the value and supply chain
- Foster economic growth in our communities
- Strengthen local communities and institutions through capacity building on human rights and good governance

The construction of new plants, acquisitions and divestments as well as closing down capacity are particularly important in respect to community impact. Hydro has a long tradition of responsible restructuring.

Compliance, including anti-corruption and human rights, are integrated in our business planning, enterprise risk management and follow-up process including relevant key performance indicators. Our compliance system is based on prevention, detection, reporting and responding. Combating corruption and respecting human rights are integral to our supplier requirements, see page 92-93.

Compliance risks are assessed and managed as an integrated part of our enterprise risk management, business planning and follow-up processes. It is addressed in the quarterly performance review meetings each business area has with the CEO, and an annual compliance report is submitted to the board of directors.

Other corporate responsibility issues are also systematically addressed in activities relating to business development, investment programs and project execution.

On 2 October 2017, the world's largest aluminium extrusion company, Sapa, became fully owned by Hydro and included as a business area called Extruded Solutions. Following the transaction, the number of permanent employees in Hydro increased from about 13,000 to about 35,000.

The Alunorte situation

In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, led to regional flooding. Surveillance

Mid-term strategic goals: Integrity and human rights*

	Ambitions	Medium-term target	Timeframe	2018 target	2017 target	2017 progress	Status		
<i>Better</i>	Maintain zero tolerance on corruption	No instances of corruption	Long-term	No instances of corruption	No instances of corruption	No registered instances of corruption	●		
				Revise Hydro's Code of Conduct	Revise Hydro's Code of Conduct	Revision of Code of Conduct postponed following Sapa acquisition	●		
				Finalization and roll out of revised Hydro Integrity Program	Finalization and roll out of revised Hydro Integrity Program	Finalization of revised Hydro Integrity Program delayed following Sapa acquisition	●		
<i>Bigger</i>									
<i>Greener</i>	Making a positive difference	Contribute to quality education in our communities	TBD	Establish measurable target		New target ¹⁾	—		
		Establish project with positive impact on social development in the Barcarena municipality in Brazil	2020	Barcarena municipal waste facility in operation	Project ready for detailed design and installation	Project ready for detailed design and installation	●		
		Establish system for identifying no. of supplier employees impacted by Hydro improvement programs		Promote decent work throughout the value and supply chain	TBD	Establish measurable target		New target ¹⁾	—
				Foster economic growth in our communities	TBD	Establish measurable target		New target ¹⁾	—
		Strengthen local communities and institutions through capacity building on human rights and good governance	Long-term	Establish measurable target		New target ¹⁾	—		

*) Integration of Extruded Solutions in the targets has started

1) Target developed during 2017 based on the UN Sustainable Development Goals.

Green light: Ambition on track and on target; *Amber light:* Ambition behind plan, but on target; *Red light:* Ambition might not meet the medium-term target

authorities inspected Alunorte's alumina refinery and surrounding areas, following reports of possible leakage and water contamination. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

Hydro's commitment to safe and environmentally sound operations is universal and absolute. We are concerned about the situation and for the people and local communities of Barcarena affected by the flooding.

Regardless of the cause, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

Measures are being implemented to resolve the situation at Alunorte, including establishing an internal task-force to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions.

Ensuring a robust compliance environment

Hydro's board-sanctioned Code of Conduct is regularly updated. It requires adherence with external laws and regulations as well as corporate directives and is systematically implemented and followed up through our compliance system. All new employees have to confirm that they have received, read and understood Hydro's Code of Conduct. Sapa had similar routines.

The compliance system is based on four pillars: prevention, detection, reporting and responding. In addition to financial

reporting, priority areas are HSE, anti-corruption, competition law and data privacy. The head of corporate compliance reports to the board of directors through the board audit committee at his own discretion. He meets with the board of directors periodically and participates in all board audit committee meetings.

An external review of Hydro's compliance system was completed in the spring of 2017. The review was performed by a US law firm and included visits to, and interviews with, relevant personnel in Brazil, Germany, Norway, Singapore and Switzerland. In addition, they reviewed and tested relevant documentation. The review concluded that, as designed and implemented, Hydro's compliance system appears robust, and that the policies and procedures in place address substantially all of the international benchmarks necessary for an adequate and effective anti-corruption compliance program. KPMG³ undertook an external gap analysis of Sapa's anti-corruption framework in 2017. The review concluded that Sapa had implemented an adequate compliance system.

Hydro aims to be compliant with the new EU rules for data protection (GDPR) from May 2018, while taking consideration of local requirements. Our global data protection procedure is an important tool to comply with applicable data protection law and safeguard the data privacy of employees and other individuals with whom we engage. In accordance with the applicable EU requirements, Hydro has established binding corporate rules (BCR) as the legal basis for the company-wide transfer of personal data. An internal network of data privacy coordinators, dedicated by each business area, is chaired by the head of data privacy. Its main purpose is to ensure effective coordination of the BCR implementation and global alignment of the data privacy compliance work in Hydro.

Employees are encouraged to discuss concerns and complaints with their superior. If the employee deems this not to be appropriate, he or she may address the local human resources or HSE staffs, a safety representative, a compliance officer or the corporate legal department. If the employee is uncomfortable using any of the above channels for any reason, Hydro's whistle-blower channel, AlertLine, can be used. AlertLine is communicated throughout the organization. All employees and on-site contractors have anonymous access in their own language at all times via toll-free phone numbers, Hydro's intranet or through a dedicated address on the internet. In certain countries, e.g. Spain, there are, however, legal restrictions on such reporting lines. Extruded Solutions has similar systems.

Every quarter the head of Hydro's internal audit informs the board audit committee and the corporate management about

matters reported through the AlertLine. The head of internal audit reports to the company's board of directors through the board audit committee. Hydro's internal audit has resources both in Norway and Brazil.

Hydro's Integrity Program is based on the Code of Conduct, and is an important tool to prevent corruption and human rights violations. The Code of Conduct is planned updated in 2018, as part of the integration process of Sapa. The planned revision of the integrity program was postponed until 2018, following the Sapa acquisition.

Procedures are in place relating to assessing the integrity risk of business partners and detecting fraud. Regular transaction-based screening of customers and suppliers is also carried out, see note S10.5 to the social statements.

For more information about Hydro's performance on compliance, see note S10 to the Viability performance statements in this report. For information about alterations of certain test records in former Sapa, please see page 133.

Transparency

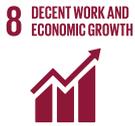
Transparency is key to create a global level playing field as well as to safeguard the company's reputation. Hydro supports the Extractive Industries Transparency Initiative (EITI) and has reported payments to host governments related to exploration and extraction activities for bauxite since 2005. We also comply with the Norwegian legal requirements on country-by-country reporting, see page A6. The report has been approved by Hydro's board of directors. In accordance with the UK Modern Slavery Act, we publish a transparency statement which is also approved by the board of directors, see page A27. See the Appendices to the Board of Directors report. We also follow the Oslo Børs guidance on the reporting of corporate responsibility.

Hydro is a long-standing corporate member of Transparency International (TI) Norway and participates regularly in seminars with TI and by providing content to TI publications.

Respecting human rights

As an employer, owner and purchaser, our most important contribution toward respecting human rights is to secure decent working conditions in our organization, in minority-owned companies and with our suppliers. Information pertaining to Hydro's human rights policies and compliance is regularly communicated to the board of directors, the Corporate Management Board, business area management teams, and other relevant parties including union representatives. We do not tolerate discrimination on the basis of gender, race, national or ethnic origin, cultural background, social group, disability, sexual orientation,

marital status, age or political opinion. Hydro also supports key frameworks that define human rights principles and are committed to following these including the UN Guiding Principles on Business and Human Rights. See www.hydro.com/gri, GRI Standards general disclosure 102-12 and 102-13 for a full overview.



In 2017, the Danish Institute for Human Rights (DIHR) performed a comprehensive mapping of Hydro's human rights risks (excluding Extruded Solutions). The mapping covered all countries in which Hydro operates, excluding Extruded

Solutions, and the report was made publicly available in January 2018. Hydro has been working with DIHR since 2011.

Hydro has significant operations in Barcarena, Brazil, including the Alunorte alumina refinery and Albras aluminium smelter. Local social conditions are challenging with high levels of unemployment and general poverty. In 2017, there were several demonstrations near our operations, mainly targeting local and federal authorities. Of these, a few also targeted Hydro directly.

In 2017, about 300 illegal dwellings were removed from Hydro industrial land by the authorities. Hydro hired the local NGO Instituto Peabiru to act as a third-party observer to report any human rights violations. The operation was described as peaceful with the vast majority of people removing their belongings voluntarily. Hydro assisted the settlers in transporting their belongings to a location of their choice.

Hydro supports ILO's eight core conventions and reports according to the UK Modern Slavery Act, see the Appendices to Board of Directors report.

Vulnerable individuals and groups

We are committed to the principles of non-discrimination and to respecting the rights of vulnerable individuals and groups. Since 2011, Hydro has been the owner of the 244-km-long Paragominas bauxite pipeline that crosses areas inhabited by a traditional Quilombola group in Jambuacu Territory in Pará in Brazil.

Unresolved issues remain related to identifying individuals directly impacted by the construction of the pipeline. In particular, these relate to 15 km crossing Quilombola territory. There are compensatory and mitigating measures which could have consequences for Hydro's mining operation in Paragominas going forward. These issues relate back to the time before Hydro became owner, and the former owner of the pipeline is still the legal party. In January 2018,

a federal court decided that the former owner must continue to pay compensation to 58 Quilombola families until an income generation project has been implemented, provided that the 58 families effectively participate in the process of implementing such a project. Hydro maintains its relations with Quilombola representatives through dedicated staff and has engaged and is cooperating with Fundação Cultural Palmares, the Brazilian agency in charge of Quilombolas affairs, to foster the dialogue and establish a positive agenda within the Quilombola territory. We are also working with local projects and are engaged in education for the Quilombola communities affected by the pipeline.

In the bauxite mine MRN^o, also in Pará in Brazil, there are ongoing disputes related to some Quilombola communities and the federal authorities regarding land title claims within a national forest. The claimed area includes part of future mining area at MRN. The local public prosecutor and certain NGOs claim that ILO 169 on indigenous and tribal peoples' rights has been violated during ongoing consultation processes.

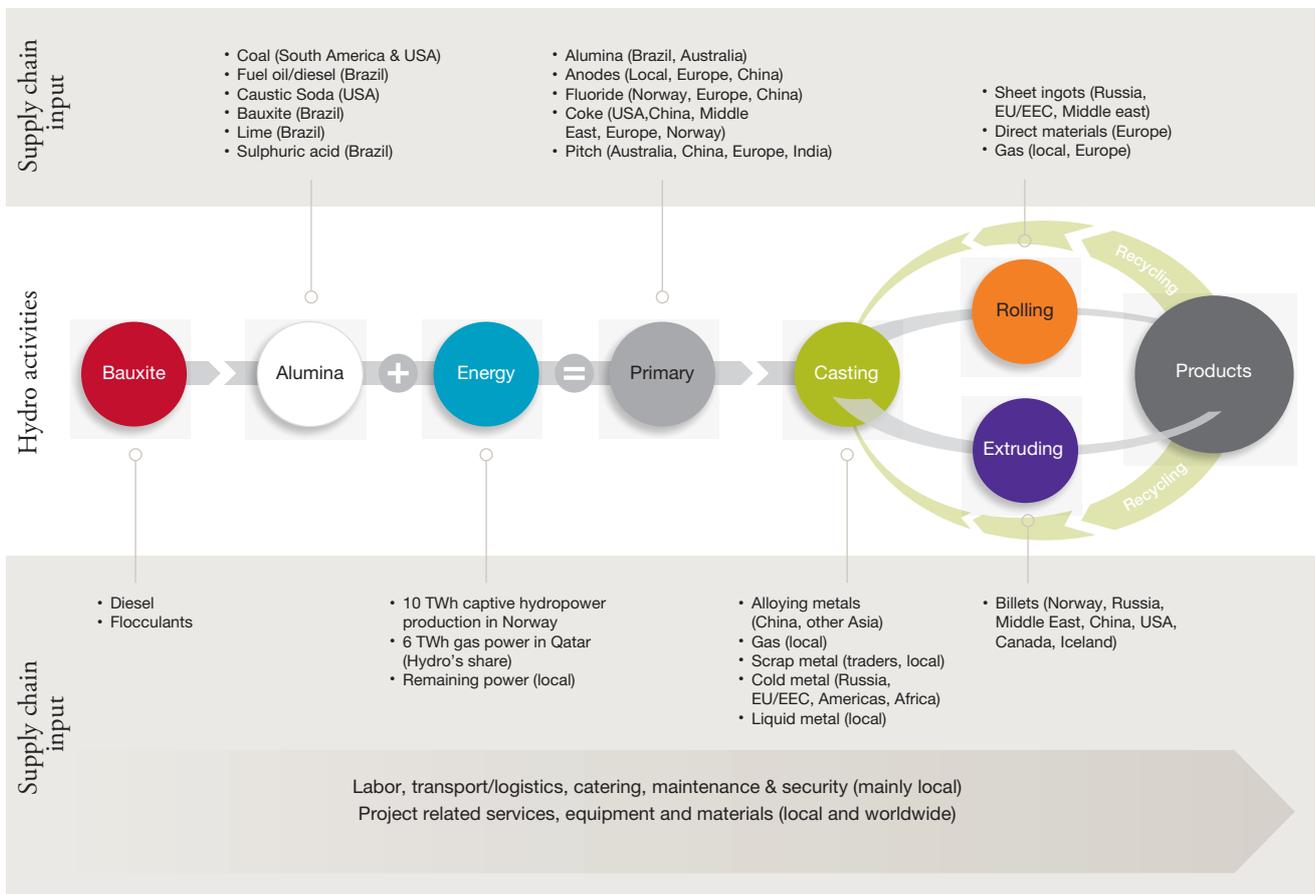
Hydro, through MRN's board of directors, engages in the scope of the planned environmental and social impact assessment (ESIA) for the expansion project to secure adherence to local, national and international standards.

In Canada, Hydro's part-owned Alouette smelter is in regular dialogue with representatives of the Innu First Nation community in its vicinity. Alouette is also promoting and hiring Innu employees.

Grievance mechanisms

Grievance mechanisms are important to protect the rights of individuals and groups affected by our operations. At many sites, such mechanisms are available to all local stakeholders. The current mechanism for third-party grievances was implemented in Hydro's Brazilian operations in 2014, replacing existing systems. In 2018, we will start the work with a group-wide solution. Channels for submitting grievances may vary depending on local needs. In Brazil, the system has several channels, including a phone number, e-mail and dedicated, specially trained field workers. Third-party grievances may be of any kind, including social and environmental issues. We are using various means to make the mechanism better known to our neighbors, including newsletters, a website and open meetings.

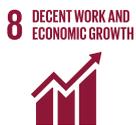
Hydro's supply chain



The figure shows Hydro's supply chain related to its value chain, and does not reflect the current organizational structure.

Responsible sourcing

Following the Sapa acquisition, Hydro has more than 30,000 active suppliers globally. Most of those are located close to our production facilities.



Hydro's supplier requirements regarding corporate responsibility are, as stated in our global directives and procedures, an integral part of all stages of the procurement process. The requirements cover issues related to environment, human rights, anti-corruption and working conditions including work environment.

The vast majority of suppliers to Hydro have to confirm that they are in compliance with Hydro's Supplier Code of Conduct. The Supplier Code of Conduct is then attached to the contract and made binding through contractual clauses. The requirements demand the supplier to comply with all applicable laws and regulations relating to corruption and bribery, human rights and working conditions and environment to ensure that Hydro's business relationships reflect the values and principles that Hydro promotes

internally and externally. The contracts shall include clauses regarding auditing rights and the supplier's responsibility to actively promote the principles set out in Hydro's Supplier Code of Conduct with its own suppliers/contractors and sub-suppliers/subcontractors of any tier that have a material contribution to the supply of goods and services to Hydro under the contract.

In Extruded Solutions, Sapa's supplier declaration was under implementation. Hydro's supplier requirements will start to be implemented in their business relations and new contracts in 2018.

Hydro's procedure for integrity risk management of business partners includes suppliers and customers, strategic partners and intermediaries/agents and sets requirements for integrity due diligence. Implementation is risk-based and takes into consideration contractual value, country risk, etc. With a few exceptions, business partners to Hydro shall be risk-assessed prior to entering into a new contract or renewing an existing contract.

Suppliers, customers and other business partners registered in our main accounting systems (except Extruded Solutions) are screened on a weekly basis against recognized international sanction lists, in particular related to anti-terror.

Furthermore, supplier audits and site visits are performed by Hydro personnel and external auditors based on risk analysis. We will work to further harmonize this for Extruded Solutions in 2018.

Suppliers audited are chosen based on a risk analysis. Audit findings and corrective action plans are reported and handed over to the visited site. Proposed corrective actions are checked at the latest in connection with the next audit performed at the site in question. We are in particular concerned about corrective actions in relation to possible child, forced or compulsory labor.

The risk of incidents of child labor abuse, compulsory or forced labor in our supply chain is considered to be low in the majority of Hydro's business areas. We do, however, recognize a risk of forced or compulsory labor among suppliers in the Middle East, South America and Asia. This is followed up through supplier audits, etc.

Hydro is a founding member of the Aluminium Stewardship Initiative (ASI). The first test audits of how Hydro sites perform according to the ASI Performance and Chain of Custody Standard were performed in 2017. See page V38 for more information.

Integration of Extruded Solutions

Union representatives from both companies were involved in the acquisition process from the start, to secure employee involvement. An employee representative from Extruded Solutions will be acting as an observer in Hydro's board of directors until 2019, when new employee representatives of Hydro are due to be elected.

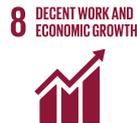
The confirmed synergies are expected to be NOK 200 million, and further synergy potentials are being developed, including innovation and R&D. The integration costs are estimated at NOK 400 million over the next two years. As part of the integration process, The Hydro Way will be updated to better reflect the joint values of the company. The Fit4Future initiative aims at step-change improvements to lift staff value creation and lower costs, divided into three main focus areas: strategic fit, differentiation and simplification.

For more information see page 63-68, 95 and 98.

New projects and other portfolio changes

When planning new projects, we map the environmental and social impact when relevant. Our analysis follows the Equator Principles, and thus reflect the requirements of the World

Bank and the International Finance Corporation regarding information, consultation and investigation of the project's environmental and social impact, including human rights, as well as an action plan and proposed initiatives. Dialogue with affected groups gives input to plans, detailing our environmental and social responsibilities. We strive to act in an open and credible manner, and gather views from interested parties, aiming for a common understanding of the decisions that are made.



The ramp-up of the new press filters for the new residue deposit at Alunorte, Brazil is delayed. At Hydro's bauxite mine in Paragominas, also in Brazil,

the new tailings system was completed in 2017. Please see page 87-88 for more information.

The Karmøy pilot project started production of its first metal in January 2018. See also page 14-18.

Two of Hydro's aluminium plants have been running on reduced capacity since 2009. In December 2017, Hydro made an investment decision to upgrade and restart the second production line at the aluminium plant Husnes, Norway. The final build decision is expected in third quarter 2018. The plant in Neuss, Germany (operated by Rolled Products) is still running at reduced capacity. In addition, improvement and cost-reduction programs are running in all business areas and corporate staffs, see also page 14-18.

At the rolling mill in Grevenbroich, Germany, the ramp-up of a new line for aluminium car body sheet with a nominal capacity of 150,000 mt, has been delayed due to technical issues, some of which relate to new technology. Although this delay is impacting the processes to become a qualified supplier by customers, the overall supplies are balanced by the automotive lines 1 and 2. Contracted volumes are on track. The ramp-up of a new production line for recycling of low-grade used beverage cans in Neuss, Germany, has been further delayed, but is expected to be at targeted run-rate by end of 2018. See page 84 for more information.

In December 2017, Hydro agreed with Arconic to acquire its two extrusion plants in Brazil. The transaction affects more than 600 employees and is expected finalized within the first half of 2018.

On February 26, 2018, Hydro made a binding offer to acquire Rio Tinto's Icelandic aluminium plant Rio Tinto Iceland Ltd (ISAL), its 53 percent share in Dutch anode facility Aluminium & Chemie Rotterdam B.V. (Aluchemie) in which Hydro currently holds 47 percent, and 50 percent

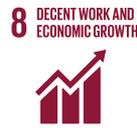
of the shares in Swedish aluminium fluoride plant Alufluor AB. ISAL produces 210,000 mt liquid metal and a total of 230,000 mt extrusion ingot for the European building, construction and transportation segments from its newly built casthouse with full ultrasonic testing capabilities. Completion of the transaction is subject to approval from relevant competition authorities, and is expected in the first half of 2018.

Dialogue with affected parties

Our dialogue and engagement with relevant parties is based on an extensive stakeholder mapping. It covers a large number of stakeholders and individuals, such as unions, works councils, customers, suppliers, business partners, local authorities, non-governmental organizations and affected communities including vulnerable groups. Such engagement is based on rights established by legislation or international conventions as well as our values, experiences and participation in the local community. We will consult with interested and affected parties in the identification, assessment and management of all significant social, health, safety, environmental and economic impacts associated with our activities. Before major developments or large expansions are undertaken, it is a requirement to conduct an impact assessment, in line with internationally accepted standards such as IFC and UN Guiding Principles on Business and Human Rights. This includes the principle of free, prior and informed consent when indigenous peoples are involved.

Following extreme rainfalls in Barcarena in February 2018, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water, regardless of the cause. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to

working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.



Dialogue with the employees' representatives includes involvement at an early stage in all major processes affecting employees, and we have a

tradition for open and successful collaboration between management and unions.

In most business areas, there is a forum for dialogue between the management and union representatives. Our ambition is to have this approach in place in all business areas within the end of 2018. Extruded Solutions will become part of Hydro's European Works Council. Hydro's Global Framework Agreement was last updated in 2016.

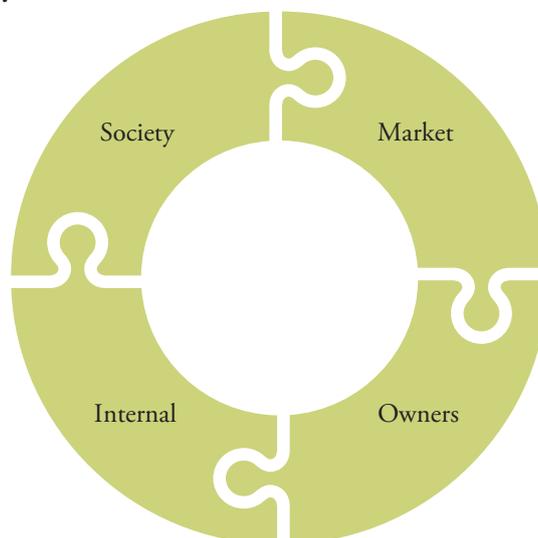
In Barcarena, Pará, more than 60 civil society organizations participate in the Intersectoral Forum together with local authorities and Hydro. The forum is managed by Instituto Internacional de Educação do Brasil, IEB. Hydro is still the only company participating.

Public affairs and lobbying

Given the nature of our industry, Hydro is particularly involved in policies dealing with climate change, recycling, viable production and consumption, trade, energy efficiency,

Stakeholder dialogue in Hydro

- Authorities
- Public offices
- Politicians
- Media
- NGOs
- Lobby groups
- Industry associations
- R&D funding bodies
- Academia
- Local communities
- National and international unions
- Employees
- Employee representatives
- Board of Directors
- Corporate Assembly



- Customers
- End users
- Partners/joint ventures
- Suppliers
- Insurers and banks
- Competitors
- Other business relations
- Commodity and stock exchanges
- Owners/shareholders
- The Norwegian government
- Financial markets
- Analysts
- Traders
- Brokers
- Ratings agencies

energy markets and infrastructure, health and safety in the workplace, competition and other framework conditions pertaining to our industry.



Hydro recognizes the value of engaging with public authorities and other stakeholders in relation to the development of various policy initiatives that impact our industry. Hydro interacts primarily with decision makers in countries in which we have significant operations, such as Norway, Germany and Brazil, as well as with regional structures like the European Union institutions. These interactions are mainly related to securing favorable, stable and predictable industry framework conditions, taxes and legislation that might have significant consequences to our activities.

Hydro promotes its views on issues of importance either through direct interaction with public authorities and other stakeholders, or through various industry associations. These include the International Aluminium Institute, Eurometaux, European Aluminium, the Brazilian Aluminium Association, the International Council on Mining and Metals, the World Business Council for Sustainable Development, the Federation of Norwegian Industry, and many more, see GRI Standards 102-12 and 102-13 at www.hydro.com/gri

Hydro participates in a series of think tanks, especially in Brussels, and engages regularly in discussions with various NGOs.

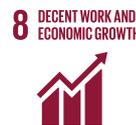
Most resources are dedicated to advocacy activities, within the EU, Brazil and Norway, through business associations, and direct dialogue with authorities and decision makers. Among concrete activities in 2017 was the new ETS regulation and CO₂ compensation regime in EU, as well as follow-up on an agreement with the state of Pará, Brazil, on a long-term ICMS tax framework, see page 76. In 2017, the Trump administration initiated Section 232 for investigation into whether aluminium import impairs US national security. Hydro supports the principles of free trade and open market, and efforts to create a global level playing field.

For information on spending on public affairs and lobbying, see note S12 to the Viability performance statements in this report.

According to our Code of Conduct, Hydro may not make financial contributions to political parties.

Community investments and social programs

In 2017, Hydro established corporate requirements on management of community investments, charitable donations and sponsorships. A key element in Hydro's CSR strategy is to strengthen the positive impact on the societies and communities where we operate. The way we do this will naturally differ from country to country and from community to community. The main contribution is generated from our operations. We also engage in capacity building through targeted programs. In addition, we have other partnerships aiming to further enhance the public's knowledge about Hydro and its operations.



Some of our community programs are based in mining license requirements, while others are voluntary commitments. In Brazil, all major programs have been evaluated to maximize outcome and impact for the targeted stakeholders. This evaluation has led to restructuring of some programs, while others have been, or will be, phased out.

An example of initiatives is the planned project for improved handling of municipal waste in Barcarena in Brazil. The project aims to improve the working conditions for those currently involved in waste collection as well as more secure waste handling in the community. Following extreme rainfalls in Barcarena in February 2018, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water, regardless of the cause. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro

Community investments, charitable donations and sponsorships*



further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

In 2017, a significant number of students in Pará, Brazil, were participating in programs aimed at improving reading and writing skills, improving the learning environment in the schools or broader educational programs.

The program offering internships and apprenticeships to nine refugees at Hydro's Rolled Products operations in Germany continued in 2017, giving language training to all candidates and training their trainers in cultural differences. In September 2017, six of the nine candidates started a technical apprenticeship in Grevenbroich, while one person, who performed exceptionally well throughout the program, was offered a permanent position at the Grevenbroich plant. The program will continue throughout 2019.

Local activities at Hydro sites around the world typically include children's education and sports activities, culture and assistance to children in need. Our partnerships also include support of the Nobel Peace Center in Oslo, and Save the Children Norway as well as agreements with e.g. Amnesty International Norway, Transparency International Norway and World Wildlife Foundation Norway.

Another important contribution is the transfer of competence that takes place through our cooperation with universities and research institutions. This includes the cooperation with three academic institutions in Pará, Brazil, and the University of Oslo through the Biodiversity Research Consortium Brazil-Norway. See page 86 for more information. In addition, we provide scholarships to selected PhD candidates doing research relevant for our business areas. Hydro is also sponsoring professorships in Norway and Qatar and has several adjunct professors among its own employees. See also page 104 for further information.

Extruded Solutions has a broad range of sponsorships and support programs based on local needs. These activities are not yet included in Hydro's reporting.

Organization and work environment

Hydro's safety performance deteriorated in 2017, and we experienced two fatal accidents. The development is concerning. Our combined TRI increased to 2.9⁴⁾ from 2.6 previous year. Our target was 2.4.

Through the Sapa acquisition, the number of permanent employees grew from about 13,000 to 35,000. Integration of Extruded Solutions includes implementation of Hydro's common process for people performance and development, My Way, and Hydro Academy, a platform for learning and development.

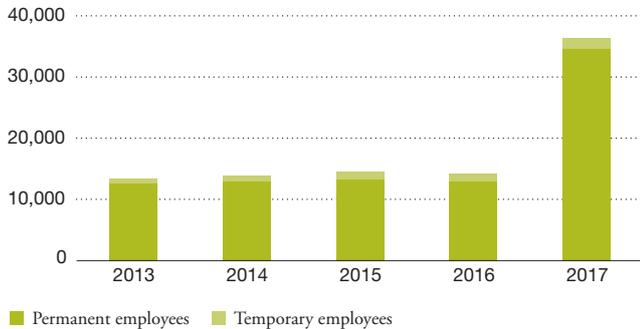
Effective organization

In order to deliver on our strategic goals and remain competitive, Hydro needs leaders and specialists with the right competence. This means that Hydro is dedicated to attracting, developing and retaining competence to ensure our future success. After an update of Hydro's people strategy in 2016, we continued to reinforce some existing processes and implement some new. In 2018, we will target a successful integration of Extruded Solutions in existing people processes, and we will develop a framework for competence management. The latter is important in successfully leveraging digital opportunities and complying with customer requirements.

Hydro's global employee engagement survey Hydro Monitor is run every second year. The last survey took place in 2016, reaching the top 10 percent according to the IBM External Norm on the Employee Engagement Index. Maintaining employee engagement is a key priority going forward. All units have action plans based on their results. Sapa ran their employee engagement survey in 2017. The last survey indicated improvements related to scores for closest manager. This is assumed to be a direct result of Sapa's work to build basic behavioral leadership down to middle managers. Hydro Monitor will be run again in 2018, without Extruded Solutions, while the whole company is planned to be included in a joint engagement survey in 2019.

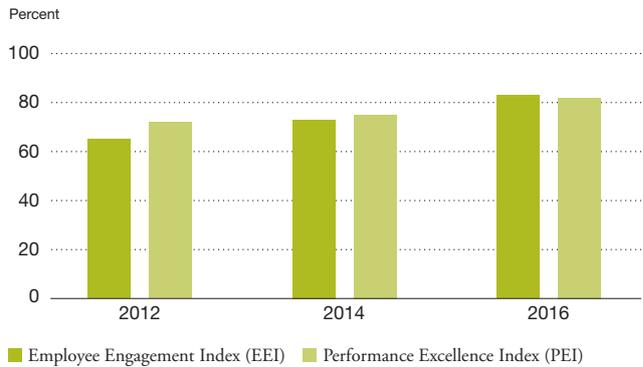
Organizational development and continuous improvement are essential elements of our business operations. We involve employees in such processes at an early stage in order to achieve the best results for the employee and the company.

Number of employees



In addition, contractor employees represented about 9,000 full-time equivalents during 2017, up from 9,500 in 2016.

Hydro Monitor



Developing and retaining the right competence

Hydro's common process for people performance and development, My Way, includes appraisal dialogue, individual development plan and follow-up, as well as talent planning and succession management. In 2017, all employees⁵⁾ were invited to take part, and 98 percent participated. Implementation of My Way in Extruded Solutions will start in 2018.

Our philosophy is that 70 percent of competence building is direct on-the-job training, 20 percent is acquired via networking and mentoring and 10 percent via traditional training. Hydro Academy is our platform for learning and development available to all employees. It is also the umbrella for all other faculties and academies in Hydro such as the Aluminium Metal Business System (see page 49), HSE, compliance and leadership. One important goal of Hydro Academy is to make training more visible and easily accessible to leaders and employees. This includes an overview of available training and keeping track of what training they have completed or should complete.

Mid-term strategic goals: Organization and work environment*

	Ambitions	Medium-term target	Timeframe	2018 target	2017 target	2017 progress	Status
<i>Better</i>	Improve safety performance, strive for injury free environment	No fatal accidents TRI ¹⁾ <2	2020	3.0 ²⁾	TRI 2.4	Two fatal accidents TRI 2.9 ²⁾	●
	Hydro scores in the top 25 percent on the Employee Engagement Index in Hydro Monitor	Top 25 percent ³⁾	2020	Top 25 percent ³⁾	Follow up of Hydro Monitor in all units	Hydro Monitor followed up in all units	●
	All employees participate in the people performance and development process My Way	90 percent	2020	95 percent ⁴⁾	98 percent	98 percent ⁵⁾	●
<i>Bigger</i>							
<i>Greener</i>							

*) All targets and progress are Hydro excluding Extruded Solutions

1) Total recordable injuries per million hours worked

2) Including Extruded Solutions from 2 October 2017. Employees and contractor employees combined

3) Currently 78% according to the IBM External Norm

4) The target for Extruded Solutions is 75 percent excluding blue collar workers

5) Percent of invited employees, which excludes employees on leave and those being employed after the main part of My Way is performed. Extruded Solutions became part of Hydro 2 October 2017 which was after My Way was performed in 2017.

We offer new employees onboarding training related to the organization and their individual work tasks. This includes required competence within health, security, safety and environment. The most important development takes place locally, primarily with on-the-job training, but also through locally organized training. A special training course, Hydro Fundamentals, is targeting leaders and specialists, giving them insight into Hydro's history, values, diversity, competitive landscape and businesses.

In order to have a healthy pipeline of leaders with the required breadth of experience, we strive for rotating employees early in their careers so that they gain skills from different parts of the organization. Through the succession and career part of My Way, we work with the leadership and specialist pipeline and identify required development. We have a portfolio of development programs that supports on-the-job development for leaders and specialists.

Diversity and inclusion

Hydro's organization around the world represents a great diversity in education, experience, gender, age and cultural background. We see this diversity as a source of competitive advantage for Hydro, as it encourages innovation, learning and better customer understanding. A diverse and inclusive work force is culturally and compliance-aware. Through diversity and inclusion we aim that all employees are valued for their differences and contribute to deliver on our business strategy.

Hydro is in the process of reviewing its strategy to increase diversity and accommodate an inclusive work environment. The new strategy will better fit the current business needs and integrate Extruded Solutions. In 2017, each business area established new priorities and more targeted roadmaps. Gender equality continues to be a global focus area for Hydro. In addition, each business area has chosen at least one

diversity area in which to improve, either culture, competence, or disability. The HR processes are also used to contribute to our work on diversity and inclusion. Through corporate programs, leaders and specialists are trained in how to better manage and take advantage of diverse teams. We also emphasize participant diversity in the programs.

We are continually adjusting working conditions so that all employees, regardless of their operability, have the same opportunities in their work place. In Brazil, we are required to employ minimum 5 percent disabled people. Paragominas and Alunorte are almost at the target, with 4.4 percent of the required employees by the end of 2017, while Albras had 3.4 percent. Besides achieving the legal requirements, Alunorte, Paragominas and Norsk Hydro Brasil are working on the career development of employees with disabilities.

Compensation

All employees shall receive a total salary that is fair, competitive and in accordance with the local industry standard. Only relevant qualifications, such as performance, education, experience and other professional criteria, shall be taken into account when making appointments, or when providing training, settling remuneration and awarding promotion.

To learn about gender-related salary differences see note S2.1 to the social statements.

The annual bonus of Hydro executives shall reflect achievements in relation to pre-defined financial targets and achievements of operational and organizational key performance indicators (KPIs). Targets relating to safety, environment, corporate social responsibility, compliance and leadership expectations constitute a substantial part of the annual bonus plan. Please see note 8 and 9 to the consolidated financial statements for more information.

Share of women leaders



The total share of women at all levels in Hydro was 17 percent in 2017.

Share of non-Norwegian leaders



Health and safety

Hydro shall be a leading company in our industry in the area of health, safety and environment. Our business-planning process is used to ensure continuous improvement throughout the organization. Progress is reported on a monthly basis.

Our ambition is to prevent all accidents, in particular serious ones, as well as ill-health to avoid human suffering. We work continuously to avoid damage to health, property and loss of production. This applies to all our activities. Internal independent investigations are routinely initiated after fatal accidents and other serious incidents to identify the root causes and reduce risk for recurrences. The development in safety performance was concerning in 2017, with two fatalities. The fatalities were investigated, and various local improvements have been implemented, in addition to creating fatality prevention protocols. For more information see note S5. The number of major accidents (those with permanent damages) as well as the number of occupational illnesses, safety and environment related incidents, remained on a level similar to previous year.

In line with the HSE strategy and the 2020 targets, Hydro will continue to follow its HSE roadmap: Improving leadership qualities, ensuring even better control over tasks and processes with inherent high risks, increasing the quality of the engagement of all employees and contractors, and implementation of Hydro's health strategy which is currently under development. These aspects were also covered in 2017 through various global and local initiatives. Maintaining a high level of compliance, verified by audits, continues to be an important task. This is supported by a more holistic integration of HSE aspects into existing business systems and HR processes as well as in new projects and process modifications.

Fatal accidents



Hydro experienced two fatalities in 2017.

Total recordable injuries

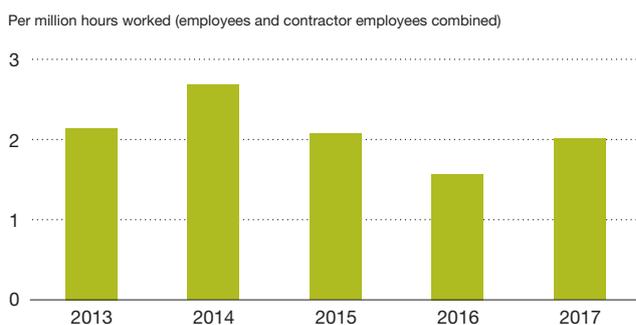


Since 2012, the CEO HSE Committee is the strategic decision-making committee for all main HSE-related matters in Hydro. The committee is led by the President & CEO Svein Richard Brandtzæg and consists of the members of the Corporate Management Board.

The risk KPI remains an important leading indicator helping monitor and manage processes and tasks with high inherent risks. In 2017, Hydro implemented the Critical Control management system, to ensure the permanent availability and efficiency of most important barrier. In addition, Hydro started to update and extend its existing fatality prevention protocol.

A handbook for assessing physical and chemical work environment risks is used by the business areas to identify potential health hazards and implement risk-reducing measures. The implementation has started in Extruded Solutions.

High risk incidents



Hydro Monitor (see page 98) is used to track the organizational work environment, and the results are followed up through local action plans. Hydro established a working group to develop a methodology for risk assessments of psychosocial work environment and this was tested in Rolled Products in 2016. After analyzing the results, we will run another pilot in 2018. The work to find a company-wide applicable system continues. Extruded Solutions has a similar system in place, which also for 2017 included a stress risk assessment. In 2018, we will work to further harmonize and improve these tools.

Our approach to improving safety performance is based on risk management, leadership qualities and-shop floor engagement. An example is our company-wide, harmonized high-risk incident investigation and communication tool. Among the areas we prioritize are man/machine interface, traffic and contractors management. Properly designing the interface between employees and technical equipment is one of the basics to avoid dangerous situations and accidents and is an important area in all business areas. For legal entities where Hydro holds less than 100 percent of the voting rights, we are working through their boards of directors to follow up HSE in general and serious incidents in particular.

The approach toward health, safety and environment have been very similar between Hydro and Sapa. The integration process continues and will utilize the strengths of both companies.

Security

An increased exposure in areas of risk, and the global volatile risk picture in general, has made us intensify our preventive efforts. We are committed to the protection of people, environment, physical assets, data and information, anticipating and preparing for potentially adverse incidents with crisis potential in order to maintain business and operational continuity.

To prepare for and respond to intentional, unintentional and/or naturally caused disasters, and to protect people and critical assets, security measures are adapted and commenced depending on the evolving risk picture. Security guards are employed on a regular basis to protect our personnel and assets. No armed guards were engaged in our activities in 2017, and there were no significant incidents reported in connection with the use of security guards. Hydro is committed to the Voluntary Principles on Security and Human Rights.

Hydro is responsible for infrastructure and functions on local and regional level that might be critical to society's operability, and we operate large-scale production sites where a crisis could influence community interests and safety in general. Hence, we are subject to control and follow-up by respective national authorities. We maintain a high state of preparedness, being trained and monitored through regular exercises. A central emergency team is in place to support line management and ensure crisis handling in accordance with Hydro's requirements and expectations.

A threat and vulnerability assessment forms the basis for preventive measures on almost all sites within our business areas. The mapping of security needs also includes all Extruded Solutions sites.

Secure information handling is important to ensure Hydro's business continuity and reputation. Crucial computer systems are subject to surveillance and regulations. All personnel with access to sensitive information are bound to secrecy, and required to handle information according to corporate guidelines and requirements.

Hydro's IS/IT infrastructure is a critical element in all parts of our operations, ranging from process control systems at production sites, central personnel databases to systems for external financial reporting. Cyber crime is increasing globally, and Hydro is exposed to threats to the integrity, availability and confidentiality of our systems. Threats may include attempts to access information, computer viruses, denial of service and other electronic security breaches.

Hydro has launched several initiatives to increase the robustness of its IS/IT infrastructure towards malicious attacks by improving system infrastructure and educating employees to develop and improve secure work processes and routines and developing an understanding of how these threats will be brought to bear.

Hydro's learning tools for risk management, travel safety and security was updated and extended in 2016. Employees are safeguarded through systems for travel planning, risk assessment and emergency preparedness. Our ability to respond quickly to incidents worldwide has increased through risk monitoring, incident-monitoring tools and a continuous development of competence

Innovation and design thinking

We believe that the key to Hydro's 112-year-long stretch of industrial progress is the combination of production and innovation, where research and development have gone hand-in-hand with full-scale production.

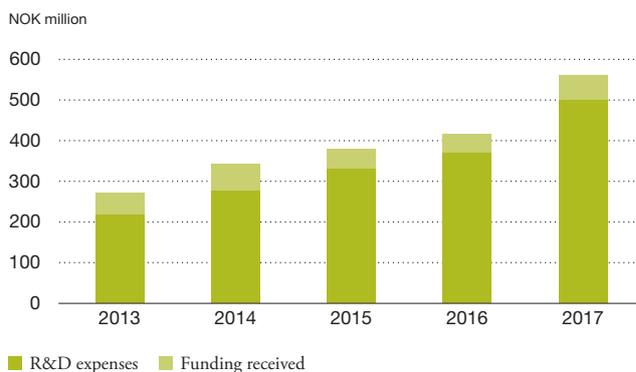


Our R&D efforts are concentrated on:

- Making products that promote the use of aluminium and sustainable development
- Developing the world's best electrolysis technology
- Using R&D and technology to ensure optimal operations in existing assets, including cost and HSE
- Developing recycling technology
- Increasing the share of value-added products and tailored solutions for the customer
- Utilizing the opportunities of Industry 4.0 to improve process stability, productivity, cost and safety

In our industry, we must start developing today the technology we will be using in 10 or 20 years, throughout our value chain. This includes smelter technology, aluminium alloys with special properties, energy-efficient transportation and building systems, cooling needs, and better packaging to reduce food spoilage. At the same time, our downstream activities are continuously developing new solutions, in close

R&D expenses



Received funding in 2017 accumulated to NOK 62 million. In addition comes NOK 639 million related to Enova's support to the Karmøy Technology Pilot.

cooperation with customers. This collaboration is increasingly reflecting design thinking, bridging the gap from idea to solution.

Hydro's Technology Board consists of the members of Hydro's Corporate Management Board. The group meets every quarter to understand and discuss innovations in the business areas, including their value to the company. Innovations include the changes achieved through our continuous improvement work on all organizational levels. Business areas are responsible for their own technology development and for the execution of their respective technology strategies. A corporate technology office shall ensure a holistic and long-term approach to Hydro's technology strategy and agenda. In 2017, Hydro established a

Mid-term strategic goals: Innovation*

	Ambitions	Medium-term target	Time-frame	2018 target	2017 target	2017 progress	Status
<i>Better</i>	Extend technology lead with Karmøy technology pilot	Start production	Q2 2018	100 % complete	Start production Q4 2017	First metal Jan 2018 ¹⁾	●
	Differentiate through product innovation, quality and service	Min. 1 step change/yr	Annually	1 step change	1 step change	HPSplus ²⁾	●
<i>Bigger</i>	Realize technology-driven smelter capacity creep	200,000 mt/yr	2025	44,000 mt ³⁾	44,000 mt	32,000 mt	●
<i>Greener</i>	Continuously reduce specific GHG emissions from electrolysis	EU benchmark	Long-term	1.58 mt CO2e/mt aluminium	1.57 mt CO2e/mt aluminium	1.59 mt CO2e/mt aluminium ⁴⁾	●
	Increased recycling of post-consumer scrap ⁵⁾	>250,000 mt/yr	2020	155,000 mt/yr	155,000 mt/yr	148,000 mt/yr	●

*) All targets and progress are Hydro excluding Extruded Solutions

1) The Karmøy Technology Pilot is on track to ramp-up to full production during 1H 2018 as planned, but did not meet the target of first metal by year-end 2017.

2) In Lithography, the HPSplus quality is a further development of the already established HPS-quality, which is expected to give a further improved graining performance and lower number of surface defects in the customer's process.

3) Accumulated

4) The figure might be subject to minor change following final verification by authorized third party according to EU ETS regulation

5) Includes Hydro's share of recycling in Alunorf

Chief Technology Officer (CTO) position, reporting directly to the CEO, in order to further strengthen technology leadership. The CTO leads an internal R&D network with representatives from the business areas, and supports the Hydro Technology Board in developing overall research and technology priorities and strategies.

The greater part of our R&D expenses goes to our in-house research and application development organization, while the remainder supports work carried out at external institutions. Our main R&D centers are in Årdal (smelter technology) and Sunndal (alloys and casting) in Norway, Bonn in Germany (Rolled Products), and Finspång in Sweden and Detroit in the USA (both Extruded Solutions). Bauxite & Alumina has a research department at Alunorte in Barcarena, Brazil, that is growing.

A major advantage for Hydro from an innovation perspective is our broad knowledge and control of the entire value chain from bauxite mining, alumina refining, electrolysis of primary aluminium and alloy technology to finished products and recycling.

Our aluminium plants in Sunndal (Norway) and Qatalum (Qatar) utilize HAL 300 technology. Hydro developed this technology, which features energy consumption of around 13.5 kWh/kg compared to a global industry average of about 14.0 kWh/kg.

Our 75,000-metric-ton-per-year technology pilot, with the aim of full-scale industrial testing of our proprietary HAL4e technology, started production at Karmøy, Norway, in January 2018. The total cost of the project was NOK 4.3 billion. Enova, a Norwegian public enterprise supporting new energy and climate-related technology, contributed NOK 1.6 billion toward the total cost. The technology pilot consists of 48 cells with HAL4e technology (operated with energy consumption of 12.3 kWh/kg) and 12 cells with HAL4e Ultra technology (11.5-11.8 kWh/kg). At these levels, energy utilization will be 12-18 percent better than the industry average. In addition, total direct and indirect emissions are expected to be 1.4 kg CO₂ equivalents/kg aluminium, or more than 30 percent lower than the world average of 2.1. In addition to benefiting possible new plants, technology elements may be implemented in existing plants to improve energy efficiency and operational stability.

Hydro's R&D vision is to lower energy consumption to 10 kWh/kg in the electrolysis with a higher degree of automation and an autonomous control system. An important rationale for the technology pilot is to validate the new physical and control system-related elements. This would enable Hydro to implement the new spin-off

technology elements - faster, cheaper and with lower risk - in existing primary aluminium plants to improve their performance and financial robustness.

In 2017, Hydro launched two low-carbon aluminium billet products that are independently certified: 75R and 4.0. The 75R is produced at our remelters and contains a minimum of 75 percent post-consumer scrap. The 4.0 is produced at our smelters, based on renewable hydropower, and has a maximum carbon footprint of 4.0 kg CO₂ per kilo aluminium produced.

Electrification in automotive

The increasing level of electrification within the automotive industry, driven by customer expectations and new regulations, is creating new opportunities for Hydro. E-mobility alludes to full electric vehicles, hybrid electric vehicles and vehicles which use hydrogen fuel cell technology.

Aluminium is well suited for e-mobility applications. Aluminium has inherent suitable forming and functional properties, it reduces corrosion and its properties can increase safety. Light-weighting increases the range of the vehicle's electric engine. Applications include extruded aluminium battery frames and body-in-white components, and aluminium sheet for hang-on parts such as car doors and hoods.

Hydro is a large supplier to the automotive industry. Customers include a large number of producers in Europe, North America and Asia. In May 2017, Hydro inaugurated a new production line in Grevenbroich, Germany, that is dedicated to producing lightweight car body sheet. Hydro invested EUR 130 million in the facility, which uses 36 percent less energy than similar production lines. In addition, the Extruded Solutions business area began manufacturing advanced aluminium components for several new vehicle platforms in 2017, including the TX eCity, which is London Electrical Vehicle Company's new zero-emission enabled black cab.

High level of expertise

An important part of Hydro's overall technology strategy is to utilize our researchers, operators and other experts in optimizing operations in existing plants. The competence base in Hydro's technology environments is on a high level in general and it is world-class in several core areas. We emphasize utilizing this competence in operational improvements. Examples are reduced energy consumption in casting furnaces, new cathode solutions for relining of electrolysis cells, improved blending tools for utilization of recycled materials, reduced emissions from foil annealing furnaces, and improvement projects related to quality and productivity.

Upstream, we prioritize our R&D and innovation efforts toward technology development and operational efficiency, while downstream, we concentrate on application and product development. Part of our work downstream is conducted together with customers, reflecting design thinking from idea to solution.

The President's Award aims to energize all employees by recognizing excellent work and best-practice sharing. Awards are presented each year within the areas of HSE, innovation, performance and technology development. Winners should clearly demonstrate the spirit of The Hydro Way, emphasizing Hydro's values. In 2017, Extruded Solutions had its own President's Awards in the categories HSE, operational excellence, commercial, innovation, collaboration and unit of the year. From 2018, Extruded Solutions will be included in Hydro's President's Award.

In order to promote idea generation and innovation, Hydro's corporate technology office manages a "New Idea" program for company employees. The program gives all employees the opportunity to apply for up to NOK 150,000 in funding to develop their idea to a maturity level where it could be further developed or implemented.

For more information about R&D in the individual business areas, please see the section "Business description" in this report.

Cooperation with other institutions

In Norway, we receive support from several public institutions to further develop our smelter and casthouse technology as well as downstream activities. These include The Research Council of Norway, Enova, Innovation Norway and Prosessindustriens Miljøfond. In addition comes the contribution of NOK 1.6 billion, granted in 2014, from Enova related to the Karmøy Technology Pilot in Norway. The majority of the support from The Research Council of Norway is paid directly to projects administered or partnered by Hydro at NTNU, SINTEF or Institute for Energy Technology. Since 2015, we have been a partner in three centers for research-based innovation, supported by The Research Council of Norway: SFI Metal Production, SFI Center for Advanced Structural Analysis and SFI Manufacturing. These are cross-disciplinary R&D programs with a frame of eight years. For more information, see note S8 to the Viability performance statements about public funding.

We also participate in other national and EU-funded R&D projects on post-consumer scrap-recycling technology, following market demand for products with a low carbon footprint. Our R&D program includes joint projects with external research institutes such as SINTEF, the Norwegian

University of Science and Technology (NTNU), Institute for Energy Technology (IFE) and the University of Oslo in Norway, RWTH Aachen in Germany and the University of Auckland in New Zealand.

Since 2016, Hydro has been a partner in NAPIC, the NTNU Aluminium Product Innovation Center. The purpose is to develop new aluminium applications. A consortium of several downstream industries has been established and five different faculties at NTNU participate. In order to support and speed up the activity Hydro will sponsor a new NTNU Professor in this area for five years, starting in autumn 2016.

Another major cooperation is participation in the AMAP (Advanced Metals and Processes) Research Cluster at RWTH Aachen, where among others, one BMWi-funded project deals with energy and resource-efficient recycling of organically contaminated aluminium scrap.

Best practice sharing

We strive toward business excellence through continuous improvement, utilizing people, technology and systems to generate maximum value for our customers. Through decentralized accountability and responsibility, decisions are made by those best able to make them. Our business systems define the principles needed to create a performance culture in a unit. One example is the Aluminium Metal Business System (AMBS), which is our operational philosophy, best practice system and standard for world-class production and improvement in our primary metal business. At the heart of AMBS is the principle of empowerment of each employee.

All employees in the organizations are included in the processes, which include establishing standardized practices, training through e-learning, classroom training, on-the-job training and job observation. AMBS training is organized as an ongoing training academy with connected leadership programs. All employees in the relevant units have participated in various academy training sessions. The AMBS academy is one of the faculties in the Hydro Academy (see page 98).

The production system has been implemented at all our metal plants, including the joint-venture plants Qatalum, Sivalco and Albras.

Our Bauxite & Alumina business area has achieved successful improvements in a short time, based on the AMBS philosophy and system in Bauxite & Alumina Business System (BABS). Our Rolled Products and Energy business areas have similar systems adapted to their business needs.

Implementation of Hydro's production systems has been an important enabler for Hydro's improvement and cost-

reduction programs in recent years, as they are for Hydro's Better programs targeting NOK 3.0 billion improvement for the period 2016 through 2019.

Extruded Solutions has a decentralized approach based on common global requirements.

Notes and references

- 1) Total Recordable Injuries
- 2) Hydro has a 5 percent ownership interest and off-take agreements with Vale for a further 40 percent of the volume produced by MRN.
- 3) Sapa used EY as their external auditor. KPMG is Hydro's external auditor.
- 4) Including Extruded Solutions from 2 October 2017
- 5) Excludes employees on leave and those being employed after the main part of My Way is performed. Extruded Solutions became part of Hydro 2 October which was after My Way was performed in 2017.

Financial and operating performance

QUICK OVERVIEW

Underlying EBIT for 2017 increased to NOK 11,215 million from NOK 6,425 million for 2016. The increase reflects a higher all-in metal price and alumina sales price, partly offset by increased raw material costs, fixed costs and negative currency effects. Hydro's acquisition of Orkla's 50 percent ownership in Sapa was completed on October 2, 2017, giving Hydro full ownership of Sapa. Financial results for the new fully owned entity are presented in the new business area Extruded Solutions.

Bauxite production in Paragominas amounted to 11.4 million mt for the year while alumina production from Alunorte was 6.4 million mt.

Primary aluminium production was about 2.1 million mt and we delivered 2.9 million mt of casthouse products and liquid metal to internal and external customers.

Downstream, we shipped roughly 0.9 million mt of rolled products to the market. Our energy business produced around 10.8 TWh of hydroelectric power. The new Extruded Solutions business area delivered around 0.3 million mt in the fourth quarter.

Hydro acquired the remaining shares in Sapa with a cash consideration of NOK 11.9 billion, and the transaction was financed with surplus cash and bond financing. Net cash provided by operating activities of NOK 14.3 billion was sufficient to cover net cash used in investing activities. Hydro's net cash position changed from NOK 6.0 billion at the end of 2016 to a net debt position of NOK 4.1 billion at the end of 2017.

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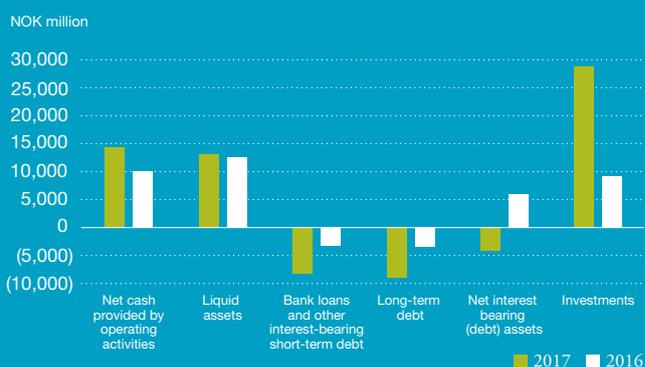
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Underlying EBIT

NOK million	2017	2016
Bauxite & Alumina	3 704	1 227
Primary Metal	5 061	2 258
Metal Markets	544	510
Rolled Products	380	708
Extruded Solutions	284	
Energy	1 531	1 343
Other and eliminations	(289)	380
Underlying EBIT	11 215	6 425

Liquidity and financial position



Financial and operating review

Summary of underlying financial and operating results and liquidity

Key financial information

	Year 2017	Year 2016
NOK million, except per share data		
Revenue	109 220	81 953
Earnings before financial items and tax (EBIT)	12 189	7 011
Items excluded from underlying EBIT ¹⁾	(974)	(586)
Underlying EBIT¹⁾	11 215	6 425
<i>Underlying EBIT :</i>		
Bauxite & Alumina	3 704	1 227
Primary Metal	5 061	2 258
Metal Markets	544	510
Rolled Products	380	708
Extruded Solutions ²⁾	284	
Energy	1 531	1 343
Other and eliminations ²⁾	(289)	380
Underlying EBIT¹⁾	11 215	6 425
Earnings before financial items, tax, depreciation and amortization (EBITDA) ³⁾	18 344	12 485
Underlying EBITDA¹⁾	17 369	11 474
Net income (loss)	9 184	6 586
Underlying net income (loss)¹⁾	8 396	3 875
Earnings per share	4.30	3.13
Underlying earnings per share¹⁾	3.95	1.83
<i>Financial data:</i>		
Investments ¹⁾	28 848	9 137
Adjusted net cash (debt) ¹⁾	(17 968)	(5 598)
Underlying Return on average Capital Employed (RoACE)¹⁾	9.6%	5.1%

Key Operational information

	Year 2017	Year 2016
Bauxite production (kmt) ⁴⁾	11 435	11 132
Alumina production (kmt)	6 397	6 341
Primary aluminium production (kmt)	2 094	2 085
Realized aluminium price LME (USD/mt)	1 915	1 574
Realized aluminium price LME (NOK/mt)	15 888	13 193
Realized USD/NOK exchange rate	8.30	8.38
Rolled Products sales volumes to external market (kmt)	940	911
Extruded Solutions sales volumes to external market (kmt) ⁵⁾	845	682
Power production (GWh)	10 835	11 332

1) Alternative performance measures (APMs) are described on page A2 in the section Appendices to the Board of Directors' report.

2) Other and eliminations includes Hydro's 50 percent share of underlying net income from Sapa until end of third quarter 2017, while 100 percent of Extruded Solutions' underlying EBIT is disclosed separately as of fourth quarter 2017.

3) EBITDA per segment is specified in note 7 Operating and geographic segment information in the consolidated financial statements.

4) Paragominas production, on wet basis.

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

The aluminium market price has improved during 2017

LME 3-month in USD per mt (weekly average prices)



Source: Ecwin

Implied primary aluminium cost and margin

USD per mt



Underlying EBIT for 2017 increased to NOK 11,215 million compared with NOK 6,425 million in 2016. The increase reflects a higher all-in metal price and alumina sales price, partly offset by increased raw material costs, fixed costs and negative currency effects.

Due to performance challenges in Rolled Products and slower than expected progress of improvements at Albras in Primary Metal, progress on Hydro's *Better* improvement program is behind plan. While Hydro did not reach the 2017 target of NOK 500 million, the delay is not expected to impact the revised 2019 target of NOK 3.0 billion.

Hydro's acquisition of Orkla's 50 percent ownership in Sapa was completed on October 2, 2017, giving Hydro full ownership of Sapa. Financial results for the new fully owned entity are presented in the new business area Extruded Solutions. Sapa's results for the first nine months are reported as a 50 percent owned joint venture accounted for under the equity method within the Other and eliminations business area. See note 6 to the consolidated financial statements for additional information.

Hydro acquired the remaining shares in Sapa with a cash consideration of NOK 11.9 billion, and the transaction was financed with surplus cash and bond financing. Net cash provided by operating activities of NOK 14.3 billion was sufficient to cover net cash used in investing activities. Hydro's net cash position changed from NOK 6.0 billion at the end of 2016 to a net debt position of NOK 4.1 billion at the end of 2017.

For 2017, Hydro's Board of Directors proposes a dividend of NOK 1.75 per share reflecting Hydro's strong operational performance for 2017 and solid financial position. This is up from NOK 1.25 per share paid out for 2016, which is still to be considered a floor. The proposed payment represents a 41 percent pay-out ratio of reported net income for the year and demonstrates the company's commitment to provide a competitive cash return to shareholders, also taking into account the volatility in the aluminium industry.

Reported EBIT and net income

For the full year 2017, reported earnings before financial items and tax amounted to NOK 12,189 million. Reported EBIT included net unrealized derivative losses of NOK 466 million and positive metal effects of NOK 419 million. Reported EBIT also included a net loss of NOK 19 million in Sapa (Hydro's share net of tax) relating to unrealized derivative losses and net foreign exchange losses, a charge of NOK 210 million, of which NOK 181 million is linked to an environmental liability at the Kurri Kurri site and NOK 29 million is related to rationalization costs in Extruded Solutions. In addition, reported EBIT included a charge of NOK 245 million related to a customs case in Germany and a gain of NOK 33 million in relation to remeasurement of environmental liabilities in Germany. Reported EBIT also included a net gain of NOK 2,171 million and an inventory valuation expense of NOK 707 million, both related to the Sapa transaction.

In the previous year, reported earnings before financial items and tax amounted to NOK 7,011 million including net unrealized derivative gains and positive metal effects of NOK 553 million in total. Reported earnings also included charges of NOK 192 million relating to the demolition of the Kurri Kurri site, impairment charges of NOK 426 million relating to the part-owned projected CAP alumina refinery and the Hannover site, a net gain of NOK 314 million relating to the sale of certain assets in Grenland, in addition to a negative adjustment relating to the sale of the Slim rolling mill in the fourth quarter of 2015. Other positive effects of NOK 223 million reflects the compensation relating to the completion of outstanding contractual arrangements with Vale and a charge of NOK 32 million relating to remeasurement of environmental liabilities in Germany. In addition, reported earnings included a net gain of NOK 113 million for Sapa (Hydro's share net of tax), relating to unrealized derivative gains, rationalization charges and net foreign exchange gains.

Net income for 2017 amounted to NOK 9,184 million. This included a net foreign exchange loss of NOK 875 million reflecting a strengthening of USD against BRL affecting US dollar debt in Brazil, while the strengthening of EUR forward rates against NOK resulted in an unrealized loss on the embedded derivatives in power contracts denominated in EUR.

In the previous year net income amounted to NOK 6,586 million including a net foreign exchange gain of NOK 2,266 million. The net foreign exchange gain in 2016 was mainly comprised of unrealized currency gains on US dollar debt in Brazil and embedded derivatives in power contracts denominated in Euro. The net foreign exchange gain also included gains on internal debt denominated in Euro.

Market developments and outlook

Industry statistics, commentary and other information in the table and text in this section have been derived from analyst reports, trade associations and other public sources as well as Hydro's own analysis unless otherwise indicated. The information in this section is intended to provide an overview of the main developments in the key markets Hydro is exposed to. Statistics presented in prior reports may have been restated based on updated information. Currency rates have been derived from Norges Bank.

Market statistics	Year 2017	Year 2016	% change prior year
USD/NOK Average exchange rate	8.26	8.40	(2) %
USD/NOK Period end exchange rate	8.21	8.62	(5) %
BRL/NOK Average exchange rate	2.59	2.42	7 %
BRL/NOK Period end exchange rate	2.48	2.65	(6) %
USD/BRL Average exchange rate	3.19	3.48	(8) %
USD/BRL Period end exchange rate	3.31	3.25	2 %
EUR/NOK Average exchange rate	9.33	9.29	-
EUR/NOK Period end exchange rate	9.84	9.09	8 %
<i>Bauxite & Alumina:</i>			
Average alumina price - Platts PAX FOB Australia (USD/t)	355	254	40 %
China bauxite import price (USD/mt CIF China)	51	49	3 %
Global production of alumina (kmt)	124 017	114 963	8 %
Global production of alumina (ex. China) (kmt)	55 963	54 720	2 %
<i>Primary Metal and Metal Markets:</i>			
LME three month average (USD/mt)	1 980	1 610	23 %
LME three month average (NOK/mt)	16 337	13 509	21 %
Standard ingot premium (EU DP Cash)	148	132	12 %
Extrusion ingot premium (DP)	334	317	5 %
Global production of primary aluminium (kmt)	63 552	58 982	8 %
Global consumption of primary aluminium (kmt)	63 595	60 087	6 %
Global production of primary aluminium (ex. China) (kmt)	27 213	26 945	1 %
Global consumption of primary aluminium (ex. China) (kmt)	29 196	28 249	3 %
Reported primary aluminium inventories (kmt)	5 283	5 086	4 %
<i>Rolled products and extruded products:</i>			
Consumption rolled products - Europe (kmt)	4 882	4 706	4 %
Consumption rolled products - USA & Canada (kmt)	5 049	4 786	5 %
Consumption extruded products - Europe (kmt)	3 053	2 976	3 %
Consumption extruded products - USA & Canada (kmt)	2 448	2 351	4 %
<i>Energy:</i>			
Average southern Norway spot price (NO2) (NOK/MWh)	269	233	15 %
Average mid Norway spot price (NO3) (NOK/MWh)	275	266	4 %
Average nordic system spot price (NOK/MWh)	274	250	10 %

Bauxite and alumina

The Platts alumina price index started the year at USD 349 per mt ranging from USD 272-484 per mt during 2017 and ending the year at USD 389 per mt. Prices averaged USD 355 per mt for the year, an increase of 40 percent compared to 2016. Prices as a percentage of LME varied, averaging 17.8 percent for the year compared with 15.7 percent in 2016. Spot prices at the end 2017 represented 17.2 percent of LME.

Chinese alumina imports amounted to 2.9 million mt in 2017, a 5 percent decrease compared with 2016. The imports were supplied by excess capacity in the market outside China. Also in 2018, the alumina supply outside China was expected to considerably exceed demand. However, the Alunorte production cut, if sustained over a longer period, might lead to an undersupply situation outside China.

Bauxite imports into China increased to 68.8 million mt, or 32 percent higher compared to 2016. The increase was driven by surging imports from Guinea reaching 27.6 million mt in 2017 from 11.9 million mt in 2016 as new bauxite mines continued to increase production. Guinea therefore became the largest supplier to China, ahead of Australia with 25.5 million mt, 20

percent higher compared to 2016. Imports from Malaysia decreased 37 percent to 4.9 million mt as a bauxite mining moratorium imposed from January 2016 was enforced more effectively. After a three year hiatus because of a Government imposed export ban, imports from Indonesia resumed in July reaching 1.3 million mt for the year. Imports from Brazil decreased 25 percent to 3.3 million mt.

According to Chinese import statistics, the monthly average delivered China bauxite price was relatively stable in 2017, ranging between USD 48 and 53 per mt. Prices averaged USD 51 per mt for the year, an increase of 3 percent compared to 2016.

Primary aluminium

Three month LME prices started the year around USD 1,700 per mt and increased every quarter. In the last quarter, the prices continued to rise as seen in third quarter, but spiked considerably towards the end of the period. At the end of the year prices had increased by around USD 550 per mt over the year, thus reaching a level of around USD 2,240 per mt. Prices averaged around USD 1,885 per mt in the first half of 2017 and increased to an average of roughly USD 2,070 per mt in the second half of the year.

Standard ingot and product premiums started the year close to historical levels, USD 200 per mt for the North American standard ingot premium and at USD 138 per mt for the standard ingot premium in Europe. The premiums continued to fluctuate around historical levels for most of the year, although both premiums turned upwards towards year-end. Average North American standard ingot premiums increased USD 8 per mt over the year, reaching USD 208 per mt at year end. Corresponding standard ingot premiums in Europe increased about USD 25 per mt to reach USD 162 per mt at the end of 2017. Premium developments have been influenced by exports of semi-finished products from China and metal availability from warehouses.

Global primary aluminium consumption increased by 5.8 percent to 63.6 million mt in 2017. Global supply increased by 7.7 percent to 63.5 million mt resulting in a rather balanced situation, with a deficit of around 0.1 million mt. For 2018, global primary aluminium supply and demand is expected to increase by 4-5 percent, resulting in a largely balanced global market also in 2018.

Demand for primary aluminium outside China increased by around 3.4 percent, while corresponding production increased by 1.0 percent. Overall, demand outside China exceeded production by close to 2.0 million mt in 2017. Demand for primary aluminium outside China is expected to grow around 3-4 percent in 2018. Corresponding production is also expected to be up 3-4 percent, resulting in a deficit in the world outside China also in 2018.

Demand for primary metal in China increased around 8.0 percent to 34.4 million mt in 2017. Production increased by around 13.4 percent, resulting in a surplus of around 1.9 million mt for the year. Chinese primary production growth is expected to fall in 2018 to around 4-6 percent, influenced by cutbacks due to illegal capacity and winter closures during 2018. This follows the directions given by the Chinese government in 2017, whereby capacity expansions in 2018 will be closely controlled, and principally be balanced through a quota scheme for removing old and idled, uncompetitive capacity. This should reduce surplus capacity going forward. Primary demand is estimated to increase by around 4-6 percent, resulting in a rather stable surplus in 2018.

LME stocks fell throughout the year from 2.2 million mt at the end of 2016 to 1.1 million mt at the end of 2017. Most of the metal in warehouses continues to be owned by financial investors. Total inventories, including unreported inventories are estimated to have been rather stable throughout 2017. This means that stocks have moved from reported to unreported warehouses. The total stock level is around 12.5 million mt at the end of 2017.

Demand for extrusion ingot, foundry alloys and sheet ingot in Europe has been solid during 2017 and increased compared to the previous year. The consumption of wire rod in the European market went up moderately in 2017 compared to 2016.

Consumption of extrusion ingot has been strong in the US also in 2017, while the demand for primary foundry alloys also increased compared to 2016.

In Asia (excluding China), the market for extrusion ingot and primary foundry alloys continued to show moderate growth.

Rolled products

The European market for flat rolled products increased by around 3.7 percent in 2017 and reached another record year. Demand growth was stronger in the second half of the year driven by automotive and general engineering.

The automotive segment continued to be the fastest growing segment due to the substitution of steel by aluminium for automotive body sheet and car production growth. Car production grew by around 1.5 percent in 2017 with a stronger second half. Demand in the building and construction segment recovered further, driven by Northern Europe in the first half and Southern Europe in the second half of 2017. Demand in the beverage can segment was on a solid level and stimulated by the growing underlying demand and the conversion of beverage can production lines from steel to aluminium. Foil was flat overall but in the second half of 2017 supported by increased US demand as a result of the preliminary anti-dumping duty imposed by the US on Chinese foil imports. Demand in the general engineering segment was good and also better in the second half of the year.

Extruded products

Europe experienced growing demand throughout all segments during the year and an aggregated growth of 2.5 percent is estimated. Automotive showed the biggest growth where the underlying car production growth was further fueled by aluminum substitution. The European market for building systems was somewhat positive in the year on aggregated level after several years of contraction.

North America, with an aggregated growth of close to 3 percent, was also driven by stronger automotive demand and higher activity in the building and construction market. The commercial transportation market has declined slightly, but improved towards the end of the year.

Energy

In 2017, Nordic electricity prices increased compared to the previous year, primarily due to increasing exports towards Continental Europe. The prices over the year remained quite stable amid a mild winter season and an even inflow during the spring thaw season. The overall hydrological situation was stable ranging somewhat below normal before improving significantly in late autumn. Power prices in Southern Norway remained close to the Nordic system price due to the hydrological situation and improving export capacities.

Nordic consumption remained unchanged at 386.8 TWh in 2017, while total power production increased by 6.2 TWh to 398.1 TWh.

The Nordic hydrological balance ended the year at around 14 TWh above normal. Water reservoirs in Norway were around 72 percent of full capacity at the end of the year, which is close to the normal level. Snow reservoirs were above normal levels at the end of the year.

In Brazil, after two years of reduced demand due to a recession, the economic recovery had a positive effect on demand in 2017.

Additional factors impacting Hydro

Primary Metal has sold forward around 50 percent of its expected primary aluminium production for the first quarter of 2018 at a price level of around USD 2,100 per mt.

On July 10, 2017, Hydro entered into a contract to acquire 50 percent of the shares in Sapa AS, which was a joint venture owned 50 percent by Hydro and 50 percent by Orkla, a listed company in Norway. Following completion of the transaction on October 2, 2017, Hydro owns 100 percent of Sapa AS, which is now renamed Hydro Extruded Solutions AS. See note 6 to the consolidated financial statements for additional information.

Sapa Profiles Inc. (SPI), a Portland, Oregon based subsidiary of Hydro Extruded Solutions AS (formerly Sapa AS) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding certain aluminum extrusions that SPI manufactured from 1996 to 2015, including extrusions that were delivered to a supplier to NASA. SPI is cooperating fully in these investigations. The investigations are currently ongoing, and, at this point, the outcome of the investigations and of any identified quality issues, including financial consequences, is uncertain. SPI also has been temporarily

suspended as a federal government contractor. Based on the information currently known to Hydro, Hydro does not expect any resulting liabilities to have a material adverse effect on its consolidated results of operations, liquidity or financial position. As part of the share purchase agreement the parties have agreed that Orkla ASA shall indemnify Hydro for 50 percent of any liability in relation to this case.

The US tax reform enacted on December 22, 2017 will result in significant changes to existing tax laws in several areas affecting Hydro. While the changes are expected to have a net positive impact on Hydro's US operations, the tax reform also makes it necessary to review the impact of interest limitation provisions and base erosion anti abuse tax on certain intercompany transactions.

Hydro has made an investment decision to upgrade and start up the second production line at Hydro Husnes, Norway. The line is expected to begin operations in the first half of 2020 doubling annual primary aluminium production at Husnes to around 190,000 mt.

Extruded Solutions has agreed with Arconic to acquire its two extrusion plants in Brazil. The agreement will strengthen Hydro's downstream position in Brazil and create a solid platform for further growth. The two extrusion plants in Utinga and Tubarão in southern Brazil have combined more than 600 employees, 1 cast house, 7 presses ranging from 7 to 14 inches and value-added capabilities. Brazilian competition authorities have approved the acquisition and closing of the transaction is expected within the first half of 2018.

Hydro started producing the first aluminium metal at the technology pilot in Karmøy on January 29, marking the start of verifying, at an industrial scale, the world's most climate-and energy efficient aluminium technology. The technology pilot is designed with an annual production capacity of approximately 75,000 mt, consisting of 48 cells running on the HAL4e technology (12.3 kWh/kg) and 12 cells using the HAL4e Ultra technology (11.5-11.8 kWh/kg).

Underlying EBIT - Business areas

To provide a better understanding of Hydro's underlying performance, the following discussion of operating performance excludes certain items from EBIT (earnings before financial items and tax) and net income, such as unrealized gains and losses on derivatives, impairment and rationalization charges, effects of disposals of businesses and operating assets, as well as other items that are of a special nature or are not expected to be incurred on an ongoing basis. See Alternative Performance Measures (APMs) on page A2 in the section Appendices to the Board of Directors' report.

Bauxite & Alumina

Operational and financial information	Year 2017	Year 2016	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	3 704	1 196	>100 %
Underlying EBIT (NOK million)	3 704	1 227	>100 %
Underlying EBITDA (NOK million)	6 190	3 221	92 %
Alumina production (kmt)	6 397	6 341	1 %
Sourced alumina (kmt)	2 522	2 541	(1) %
Total alumina sales (kmt)	8 920	8 843	1 %
Realized alumina price (USD/mt) ¹⁾	326	240	36 %
Bauxite production (kmt) ²⁾	11 435	11 132	3 %
Sourced bauxite (kmt) ³⁾	7 601	8 499	(11) %

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 2017 increased compared to 2016, mainly due to higher realized alumina prices. This was partly offset by increased raw material cost and negative currency effects. Both the bauxite mine in Paragominas and alumina refinery at Alunorte reached record yearly production of 11.4 million mt and 6.4 million mt respectively for 2017.

Bauxite & Alumina achieved its "Better Bauxite & Alumina" improvement program target of NOK 1 billion of annual improvements two years ahead of schedule and have increased the 2019 target to NOK 1.3 billion.

Bauxite & Alumina generated total revenues of about NOK 25 billion in 2017. Bauxite production in Paragominas amounted to 11.4 million mt for the year. Alumina production from Alunorte was 6.4 million mt for the year. Production levels for both operations reached record levels in 2017. Bauxite & Alumina sourced 2.5 million mt of alumina in 2017. The business area employs around 3,700 people.

Primary Metal

Operational and financial information¹⁾	Year 2017	Year 2016	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	4 729	2 285	>100 %
Underlying EBIT (NOK million)	5 061	2 258	>100 %
Underlying EBITDA (NOK million)	7 078	4 172	70 %
Realized aluminium price LME (USD/mt) ²⁾	1 915	1 574	22 %
Realized aluminium price LME (NOK/mt) ²⁾	15 888	13 193	20 %
Realized premium above LME (USD/mt) ³⁾	265	263	1 %
Realized premium above LME (NOK/mt) ³⁾	2 197	2 201	-
Realized NOK/USD exchange rate	8.30	8.38	(1) %
Primary aluminium production (kmt)	2 094	2 085	-
Casthouse production (kmt)	2 169	2 146	1 %
Total sales (kmt)	2 278	2 248	1 %

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%)	Year 2017	Year 2016	% change prior year
Revenue (NOK million)	5 821	4 801	21 %
Underlying EBIT (NOK million)	985	341	>100 %
Underlying EBITDA (NOK million)	2 157	1 528	41 %
Net income (loss) (NOK million)	747	98	>100 %
Underlying Net income (NOK million)	747	98	>100 %
Primary aluminium production (kmt)	310	306	1 %
Casthouse sales (kmt)	325	310	5 %

Primary aluminium and casthouse production (kmt)⁴⁾	Location	Primary aluminium		Casthouse production	
		2017	2016	2017	2016
Albras	Brazil	447	445	398	393
Karmøy	Norway	195	196	176	166
Årdal	Norway	210	205	220	222
Sunndal	Norway	407	406	463	466
Høyanger	Norway	65	65	95	92
Husnes	Norway	94	93	107	103
Slovalco	Slovakia	173	174	198	196
Tomago (12.4%)	Australia	73	73	73	67
Qatalum (50%)	Qatar	310	306	321	319
Alouette (20%)	Canada	120	122	119	122
Total production Primary Aluminium		2 094	2 085	2 169	2 146

4) Production volumes for non-consolidated part owned companies represent our proportion of total production. For financial reporting purposes, Qatalum is accounted for as equity accounted investments, while Tomago and Alouette are consolidated on a proportional basis. Slovalco and Albras are fully consolidated in terms of financial results and volumes.

Underlying EBIT for the year 2017 improved substantially compared to 2016, mainly due to higher realized aluminium prices, partly offset by higher raw material prices, fixed costs and negative currency effects.

The "Better Primary Metal" improvement program was behind plan for 2017 due to slower than expected progress of improvements at Albras. The delay is not expected to impact the 2019 target of NOK 1.0 billion.

Primary Metal generated about NOK 36 billion in total revenues in 2017. Production of electrolysis metal amounted to 2.1 million mt, from our plants in Australia, Brazil, Canada, Norway, Qatar and Slovakia. We delivered 2.3 million mt of casthouse products to internal and external customers from casthouses which are integrated with our primary aluminium plants. Deliveries included about 0.8 million mt of extrusion ingot, 0.3 million mt of sheet ingot and 0.5 million mt of foundry alloys and wire rod. We also sold about 0.7 million mt of standard ingot and liquid metal. Primary Metal employs around 4,000 people.

Metal Markets

Operational and financial information	Year 2017	Year 2016	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	485	629	(23) %
Underlying EBIT (NOK million)	544	510	7 %
Currency effects	83	-	-
Ingot inventory valuation effects	(38)	(13)	>(100) %
Underlying EBIT excl. currency and ingot inventory effects	499	524	(5) %
Underlying EBITDA (NOK million)	638	604	6 %
Remelt production (kmt)	568	548	4 %
Metal products sales excluding ingot trading (kmt) ¹⁾	2 921	2 893	1 %
Hereof external sales (kmt)	2 575	2 627	(2) %

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

Remelt production (kmt)	Location	Year 2017	Year 2016	% change prior year
Europe				
Clervaux	Luxembourg	97	80	20 %
Deeside	United Kingdom	58	56	3 %
Rackwitz	Germany	90	91	(1) %
Luce	France	55	56	(1) %
Azuqueca	Spain	80	78	3 %
US				
Henderson	Kentucky	88	82	7 %
Commerce	Texas	100	105	(4) %
Total remelt production Metal Markets		568	548	4 %

Underlying EBIT for the year 2017 improved somewhat compared with 2016, mainly due to positive currency effects and improved results from sourcing and trading activities. This was partly offset by lower results from the remelters, in addition to more negative inventory valuation effects.

Metal Markets generated total revenues of around NOK 51 billion in 2017. The business area employs around 670 people at plants and offices in Asia, Europe and North America. Our five remelters in Europe and two in the U.S. produced approximately 570,000 mt of metal products in 2017. We sold 2.9 million mt of metal products last year, including deliveries from the casthouses integrated with our primary smelters. Of this figure, we sold approximately 2.6 million mt to external customers.

Rolled Products

Operational and financial information	Year 2017	Year 2016	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	512	953	(46) %
Underlying EBIT (NOK million)	380	708	(46) %
Underlying EBITDA (NOK million)	1 240	1 507	(18) %
Sales volumes to external market (kmt)	940	911	3 %

Sales volumes to external markets (kmt) - Product areas¹⁾

Can & foil	352	321	10 %
Lithography & automotive	297	298	-
Special products	291	292	-
Rolled Products	940	911	3 %

Rolled Products production sites

Volumes to external market (kmt)	Location	Year 2017	Year 2016	% change prior year
Grevenbroich / 50% share in Alunorf	Germany	628	602	4 %
Hamburg	Germany	146	150	(3) %
Karmøy	Norway	80	74	8 %
Holmestrand	Norway	87	86	1 %
Total, excluding internal sales		940	911	3 %

Underlying EBIT for the year was significantly below 2016 due to a combination of factors. These include reduced margins, costs related to year end maintenance and implementation of new equipment, ramp-up costs for the new automotive line 3, negative currency effects and inflationary cost pressure. Results from the Neuss smelter have improved driven by higher all-in metal price development.

In 2017, technical issues caused delays in ramp up of both the new recycling line for used beverage cans (UBC) and the Automotive line 3. This, together with performance issues in some of the plants, adversely affected Rolled Products' improvement ambition in 2017. The "Better Rolled Products" improvement ambition has been delayed by one year, now targeting NOK 900 million by 2020, the revised 2019 target is NOK 700 million.

Rolled Products generated total revenues of approximately NOK 26 billion in 2017. Approximately 940,000 mt of rolled products were shipped from our five European rolling mills. Rolled Products employs around 4,100 permanent and 450 temporary employees.

Extruded Solutions

Operational and financial information	Year 2017	Year 2016	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	1 722		
Underlying EBIT (NOK million)	284		
Underlying EBITDA (NOK million)	728		
Sales volumes to external market (kmt)	318		

Sales volumes to external markets (kmt) - Product areas¹⁾

Extrusion Europe	130		
Extrusion North America	134		
Building Systems	19		
Precision tubing	34		
Extruded Solutions	318		

1) Volumes for fourth quarter only.

The new Extruded Solutions business area was formed at the beginning of the fourth quarter following Hydro's acquisition of the remaining 50 percent of Sapa shares. The business areas' financial results are fully consolidated from the closing date October 2, 2017. Extruded Solutions' underlying EBIT includes certain effects of the acquisition such as increased depreciation and amortization following fair value adjustments related to long-lived assets.

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

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

The business employs around 22,400 people in more than 40 countries. Extruded Solutions has around 150 extrusion presses in operation at more than 100 production sites. The majority of operations are located throughout Europe and in North America.

Energy

Operational and financial information	Year 2017	Year 2016	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	1 531	1 343	14 %
Underlying EBIT (NOK million)	1 531	1 343	14 %
Underlying EBITDA (NOK million)	1 757	1 553	13 %
Direct production costs (NOK million) ¹⁾	614	639	(4) %
Power production (GWh)	10 835	11 332	(4) %
External power sourcing (GWh)	9 562	8 935	7 %
Internal contract sales (GWh)	14 424	13 435	7 %
External contract sales (GWh)	767	769	-
Net spot sales (GWh)	5 206	6 063	(14) %

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

Underlying EBIT for 2017 increased compared to the previous year mainly due to higher power prices improved commercial results and lower area costs, partly offset by lower production.

Energy generated about NOK 8 billion in total revenues in 2017. Energy produced 10.8 TWh of renewable hydroelectric power, which is above our normal annual production of 10 TWh but lower than our 11.3 TWh production in 2016. The business area employs around 190 people, mainly in Norway.

Other and eliminations

Financial information NOK million	Year 2017	Year 2016	% change prior year
Earnings before financial items and tax (EBIT)	(495)	605	>(100) %
Sapa (50%) ¹⁾	819	777	5 %
Other	(586)	(458)	(28) %
Eliminations	(522)	61	>(100) %
Underlying EBIT Other and eliminations	(289)	380	>(100) %

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

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

Operational and financial information Sapa (50%)	Year 2017	Year 2016	% change prior year
Revenue (NOK million)	21 808	26 663	(18) %
Underlying EBIT (NOK million)	1 140	1 099	4 %
Underlying EBITDA (NOK million)	1 632	1 749	(7) %
Net income (loss) (NOK million)	800	889	(10) %
Underlying Net income (loss) (NOK million)	819	777	5 %
Sales volumes (kmt)	527	682	(23) %

Following the completion of the transaction on October 2, 2017, to acquire the remaining 50 percent of Sapa shares, Sapa has been renamed Extruded Solutions and the fully consolidated financial results are presented in the Extruded Solutions business area. As a result of the transaction Sapa's (50%) underlying EBIT included in the tables above only reflects the first nine months of 2017.

Financial income (expense), net

Financial income (expense)	Year	Year	% change
NOK million	2017	2016	prior year
Interest income	322	468	(31)%
Dividends received and net gain (loss) on securities	159	105	51 %
Financial income	481	574	(16)%
Interest expense	(378)	(362)	(4)%
Capitalized interest	76	97	(22)%
Net foreign exchange gain (loss)	(875)	2 266	>(100)%
Net interest on pension liability	(152)	(210)	27 %
Other	(266)	(240)	(11)%
Financial expense	(1 596)	1 552	>(100)%
Financial income (expense), net	(1 114)	2 126	>(100)%

The net foreign exchange loss, mainly unrealized, reflects primarily a strengthening of EUR forward rates against NOK. This resulted in an unrealized loss on the embedded derivatives in power contracts denominated in EUR. In addition the strengthening of USD against BRL affecting US dollar debt in Brazil contributed to the foreign exchange loss.

Income tax expense

Income taxes amounted to a charge of NOK 1,891 million in 2017, compared with a charge of NOK 2,551 million in 2016. The tax expense rate was about 17 percent of income before tax. The low tax rate results from a tax-free gain on the revaluation of Hydro's previous ownership interests in Sapa and positive effects from US tax reform, partly offset by a relatively high share of reported income before tax subject to power sur tax.

Pro forma information

Pro forma information related to the acquisition of Sapa

The above discussion on reported and underlying operating results reflects 50 percent of Hydro's ownership in Sapa until end of third quarter 2017 and 100 percent from October 2, 2017.

To provide a presentation of Hydro's performance on a comparable basis with the previous year the following section is comprised of selected pro forma consolidated financial and operating information and a discussion of underlying developments in the new business area Extruded Solutions, including 100 percent of the acquired Sapa business, for the full year 2017. In addition to the following pro forma information, please see note 6 to the consolidated financial statements later in this report for more information on the acquisition.

Summary consolidated underlying financial and operating results

Key financial information

NOK million	Year 2017	Year 2016	% change prior year
Revenue	148 920	130 630	14 %
Earnings before financial items and tax (EBIT)	11 927	8 229	45 %
Items excluded from underlying EBIT	510	(698)	>100 %
Underlying EBIT ¹⁾	12 437	7 531	65 %
Earnings before financial items, tax, depreciation and amortization (EBITDA)	19 294	15 331	26 %
Underlying EBITDA	19 786	14 633	35 %

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

Extruded Solutions

Operational and financial information	Year 2017	Year 2016	% change prior year
Revenue (NOK million)	57 769	53 327	8 %
Earnings before financial items and tax (EBIT) (NOK million)	2 265	2 109	7 %
Unrealized derivative effects (NOK million)	36	(333)	>100 %
Significant rationalization charges and closure costs (NOK million)	29	109	(73)%
Items excluded from underlying EBIT (NOK million)	65	(224)	>100 %
Underlying EBIT (NOK million) ¹⁾	2 330	1 885	24 %
Earnings before financial items, tax, depreciation and amortization (EBITDA)	3 917	3 739	5 %
Underlying EBITDA (NOK million)	3 982	3 516	13 %
Sales volumes to external markets (kmt)	1 372	1 365	1 %

Sales volumes to external markets (kmt) - Business units

Extrusion Europe	568	555	2 %
Extrusion North America	584	585	-
Building Systems	78	76	3 %
Precision tubing	143	149	(4)%
Extruded Solutions	1 372	1 365	1 %

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

Pro forma underlying EBIT for 2017 increased compared to the previous year. The increase was driven by increasing margins due to a higher share of value-add business, partly offset by increased production costs.

Liquidity and capital resources

The table below includes information on Hydro's liquidity, debt, investments and financial position and performance for the years indicated. See note 38 to the consolidated financial statements for more information on Hydro's capital management practices. See the shareholder information section of this report for more information on Hydro's dividend policy, share buybacks and funding and credit rating.

Liquidity and financial position	Year	Year
NOK million, except ratios and RoaCE	2017	2016
Net cash provided by continuing operating activities	14 347	10 018
Cash and cash equivalents	11 828	8 037
Short-term investments ¹⁾	1 311	4 611
Liquid assets	13 139	12 649
Short-term debt	(8 245)	(3 283)
Long-term debt	(9 012)	(3 397)
Net cash (debt)	(4 118)	5 969
Adjusted net cash (debt) ²⁾	(17 968)	(5 598)
Adjusted net cash (debt) incl. EAI ²⁾	(23 767)	(12 485)
Adjusted net cash (debt) incl. EAI / Equity ³⁾	0.26	0.14
Investments ⁴⁾	28 848	9 137
Capital employed	96 370	81 670
Return on average capital employed (RoaCE) ⁵⁾	11.2 %	6.5 %
Funds from operations / Adjusted net cash (debt) ⁶⁾	0.68	0.95

1) Hydro's policy is that the maximum maturity for cash deposits is 12 months. Cash flows relating to bank time deposits with original maturities beyond three months are classified as investing activities and included in short-term investments on the balance sheet. See note 24 to the consolidated financial statements for more information on short-term investments.

2) See note 38 to the consolidated financial statements for more information on Adjusted net cash (debt) and equity.

3) Adjusted net cash (debt) to equity ratio and other financial metrics included in this report are calculated including net debt per individual equity accounted investment.

4) Alternative performance measures (APMs) are described on page A2 in the section Appendices to the Board of Directors' report.

5) Based on reported EBIT after tax.

6) The full calculations of Funds from operations and Adjusted net cash (debt) are presented in note 38.

Cash flow and liquidity

Hydro manages its liquidity at the corporate level, ensuring sufficient funds to cover group operational requirements.

In 2017, Hydro acquired the remaining shares in Sapa with a cash consideration of NOK 11.9 billion, and the transaction was financed with surplus cash and bond financing. Net cash provided by operating activities of NOK 14.3 billion was sufficient to cover net cash used in investing activities.

Hydro's net cash (debt) changed from NOK 6.0 billion at the end of 2016 to a debt position of NOK 4.1 billion at the end of 2017. Hydro's adjusted net cash (debt) to equity ratio was 26 percent, well below its targeted maximum ratio of 55 percent. Our funds from operations/adjusted net cash (debt) ratio was 68 percent, above the targeted minimum of 40 percent over the business cycle. See note 38 for information on Hydro's capital management measures.

Norsk Hydro ASA has a USD 1.7 billion revolving multi-currency credit facility with a syndicate of international banks, maturing in November 2020. Drawing per year-end 2017 was approximately NOK 3 billion, repaid in January 2018. The facility will continue to serve primarily as a back-up for unforeseen funding requirements. See note 38 to the consolidated financial statements for additional information.

Contractual obligations, commitments and off-balance sheet arrangements

A summary of Hydro's total contractual obligations and commercial commitments to make future payments is presented below. For further information, see notes 21 Operating leases, 33 Short and long-term debt, 34 Provisions and 40 Contractual commitments and other commitments for future investments to Hydro's consolidated financial statements.

Amounts in NOK million	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term debt including interest	10 667	609	4 501	3 333	2 223
Operating lease obligations	2 338	771	975	309	284
Unconditional purchase obligations ¹⁾	156 335	30 691	32 137	24 282	69 226
Contractual commitments for PP&E	3 786	2 988	781	17	-
Short-term and long-term provisions ²⁾	8 124	2 296	1 868	880	3 079
Total contractual and non-contractual obligations	181 250	37 355	40 262	28 820	74 812

1) Unconditional purchase obligations exclude long-term contracts with part owned entities.

2) Short-term and long-term provisions includes certain accruals and provisions which are non-contractual, but related to liabilities or obligations that are measurable and expected to occur in future periods.

Employee retirement plans

Hydro's employee retirement plans consist of defined benefit and defined contribution pension plans. As of December 31, 2017, the defined benefit obligation associated with Hydro's defined benefit plans was NOK 26.9 billion. The fair value of pension plan assets was NOK 18.5 billion, resulting in a net unfunded obligation relating to the plans of NOK 8.4 billion. In addition, other net pension related liabilities amounted to NOK 1.0 billion, resulting in a total net unfunded pension liability of NOK 9.4 billion. Hydro's pension expense for 2017 amounted to NOK 0.8 billion. Cash outflows from operating activities in 2017 regarding pensions amounted to approximately NOK 0.9 billion. See note 36 in the consolidated financial statements for more information on Hydro's employee retirement plans.

Non-controlling interest and shareholders' equity

Non-controlling interest was NOK 5,178 million as of December 31, 2017, compared with NOK 5,733 million as of December 31, 2016. Shareholders' equity amounted to NOK 92,252 million at the end of 2017, compared with NOK 87,640 million at the end of 2016. The main items impacting shareholders' equity in 2017 and 2016 included net income, currency translation adjustments and dividends declared and paid. See the consolidated statements of changes in equity and note 37 Shareholders' equity to Hydro's consolidated financial statements for a detailed reconciliation of shareholders' equity.

Investments

Investments in 2017 amounted to NOK 28,848 million, compared with NOK 9,137 million in 2016.

Investments¹⁾

Amounts in NOK million	Year 2017	Year 2016	% change prior year
Bauxite & Alumina	1 634	3 544	(54) %
Primary Metal	3 537	3 396	4 %
Metal Markets	143	101	42 %
Rolled Products	997	1 615	(38) %
Extruded Solutions ²⁾	22 137		
Energy	361	318	14 %
Other and eliminations	39	162	(76) %
Total	28 848	9 137	>100 %

1) 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.

2) The Extruded Solutions segment includes the business acquired as a 100 percent owned subsidiary in the fourth quarter 2017. See note 6 Significant subsidiaries and changes to the consolidated group for further information.

Investments include maintenance activities to safeguard our production assets. A summary of the significant investments that were made in addition to maintenance activities for both 2017 and 2016 is included below.

Investments in Bauxite & Alumina in 2016 and 2017 included amounts relating to an expansion and modernization of the bauxite residue (red mud) deposit area at Alunorte and a new residue deposit area (tailing dam) at Paragominas. The Alunorte and Paragominas projects are expected to be finalized in 2018. Paragominas continues to replace a major part of their mining fleet assets following ten years production at the mine. The total amount for Bauxite & Alumina in 2017 also includes NOK 79 million for ARO adjustments at both plants.

Investments for Primary Metal in 2017 included the capitalization of costs related to the Karmøy technology plant. Investments also included amounts related to the normal cyclical increase in the relining of smelter cells which is done every 4-7 years for established smelters.

In Metal Markets, investments in 2017 included amounts relating to the further development of our remelters in Europe and the U.S.

Investments for Rolled Products in 2017 included further investments in the new recycling line for used beverage cans at our smelter in Neuss, Germany and the new production line in Grevenbroich for aluminium car body sheet. Investments for Rolled Products in 2016 included expenditures for the same projects.

Investment in the new Business area Extruded Solutions includes 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. For additional information see note 6 - Significant subsidiaries and changes to the consolidated group

In 2017 investments for Energy consisted mainly of power plant rehabilitation and upgrades, including the completion of the Vigeland dam upgrade and continuation of the Suldal I upgrade. Energy also acquired 25.9 percent of the shares in Corvus Energy, a Canadian company that connects lithium-ion based battery solutions and control systems. In 2016 investments for Energy included completion of small hydropower plants Mannsberg and Midtlæger, as well as ongoing upgrade projects for the Vigeland dam and Suldal I power station

Return on Capital Employed (RoACE)

Hydro uses (underlying) RoACE to measure the performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views this measure as providing additional understanding of the rate of return on investments over time in each of its businesses, and in the operating results of its business segments.

Return on average Capital Employed (RoACE)	Reported		Underlying	
	2017	2016	2017	2016
Hydro	11.2 %	6.5 %	9.6 %	5.1 %
Business areas ¹⁾				
Bauxite & Alumina	8.5 %	2.7 %	8.5 %	2.8 %
Primary Metal	11.8 %	5.2 %	12.6 %	5.2 %
Metal Markets	18.6 %	19.6 %	20.8 %	15.9 %
Rolled Products	3.2 %	6.2 %	2.4 %	4.6 %
Extruded Solutions ²⁾	13.4 %		6.6 %	
Energy	17.5 %	18.1 %	17.5 %	18.1 %

1) RoACE at business area level is calculated using 25% tax rate for 2017 (30% tax rate applied for prior years). For Energy, 65% tax rate is used for 2017, 60% for 2016 and 55% for prior years

2) Extruded Solutions reflected as 50% equity accounted investment Q1-Q3 2017 and fully consolidated in Q4 2017

For more information; see Alternative performance measures (APMs) described on page A2 in the section Appendices to the Board of Directors' report.

Risk review

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QUICK OVERVIEW

Hydro is subject to a range of risks and uncertainties which may affect its business operations, financial condition and results of operations. Changes in the regulatory framework or political environment in which Hydro operates could have a material adverse effect on the company's operating results and financial position. Hydro is exposed to the risk of unfavorable macroeconomic developments. Our operations are exposed to competition from China and we may be unable to achieve or maintain the operational targets necessary to secure the competitiveness of the company's business. Major projects and acquisitions are subject to significant risk and uncertainty. Hydro's business is subject to risks which could result in disruptions to operations, damage to properties or the environment, personal injury or death. Hydro could be negatively affected by investigations, legal proceedings, material CSR incidents or major noncompliance with internal or external regulations. Hydro is exposed to the threat of cyber attacks which may disrupt its business operations, and result in reputational harm and other negative consequences.

Risk management in Hydro is based on the principle that risk evaluation and mitigation is an integral part of all business activities. A core strategy to reduce the risks related to weak economic and unfavorable market developments is the continual improvement of our business in terms of operational efficiency, cost reductions and enhanced commercial strategies. Hydro's main strategy for mitigating risk related to volatility in cash flow is to maintain a solid financial position and strong credit worthiness.



Commodity price sensitivity +10%

NOK Million	EBIT
Hydro Group	
Aluminium	3 900

Currency sensitivities +10%

NOK Million	USD	BRL	EUR
Sustainable effect			
EBIT	3 860	(1 210)	(230)
One-off reevaluation effect			
Financial items	280	550	(2 170)

- Annual sensitivities based on normal annual business volumes. LME USD 2 100 per mt, fuel oil USD 440 per mt, petroleum coke USD 400 per mt, caustic soda USD 645 per mt, coal USD 85 per mt, USDNOK 8.20, BRLNOK 2.50, EURNOK 9.60
- Aluminium price sensitivity is net of aluminium price indexed costs and excluding unrealized effects related to operational hedging
- BRL sensitivity calculated on a long-term basis with fuel oil assumed in USD. In the short term, fuel oil is BRL-denominated
- Excludes effects of priced contracts in currencies different from underlying currency exposure (transaction exposure)
- Currency sensitivity on financial items includes effects from intercompany positions and embedded derivatives related to long-term power sourcing contracts

Major risks

Hydro has developed and implemented an enterprise risk management model, approved by the Board of Directors. In accordance with this model, risk factors that are relevant for Hydro's business are continuously identified, analyzed, addressed and monitored. Risk management is an integral part of our business activities, and the business areas consequently have the main responsibility for managing risks arising from their business activities. Hydro's corporate staffs establish and develop policies and procedures for managing risk, and coordinate a semi-annual overall enterprise risk assessment. Major risks are followed up, on an ongoing basis, as part of our internal performance review structure.

Risk management in Hydro is based on the principle that risk evaluation and mitigation is an integral part of all business activities. A core strategy to reduce the risks related to weak economic and unfavorable market developments is the continual improvement of our competitive and cost position as well as maintaining a solid financial position and strong creditworthiness. Hydro's integrated value chain plays a key role in mitigating risk as the earnings volatility in upstream aluminium is typically higher, whereas downstream and Energy businesses generate more stable earnings over time.

Below is a description of some of the principle risks identified that may affect our business operations, reputation, financial condition, results of operations and, ultimately affect our share price. Some of the mentioned risks might have a positive business impact or represent a business opportunity, whereas the focus in the description below is on downside risk. Examples are included to provide further information about risks specific to Hydro, where deemed relevant for illustrative purposes. The examples are not meant to be exhaustive. There may be additional risks unknown to Hydro at the date of this report and risks, currently considered to be immaterial, which could become material. All of the information in this report should be carefully considered by investors, in particular, the risks described in this section.

Changes in the regulatory framework or political environment in which Hydro operates could have a material adverse effect on the company

Hydro needs competitive and predictable framework conditions. Hydro is subject to a broad range of laws and regulations in the legal jurisdictions in which we operate. These laws and regulations impose stringent standards and requirements and potential liabilities regarding accidents and injuries, the construction and operation of our plants and facilities, payment of taxes, air and water pollutant emissions, the storage, treatment and discharge of waste waters, the use and handling of hazardous or toxic materials, waste disposal

practices, and the remediation of environmental contamination, among other things. Changes in such laws and regulations, or changes in the way these laws and regulations are interpreted or enforced, may impact our operational licenses, and have a significant negative financial effect for Hydro. There is a risk that new taxes or tariffs are introduced, or the current tax or tariff levels will be increased in the future.

Hydro's operations include extracting and refining bauxite resources and utilizing water resources for the generation of power. Such activities have increasingly been subject to local and regional tax regimes which are separate from, and in addition to, national tax regimes such as corporate income tax.

There is a risk of increased network tariffs in Europe, due to the development of renewable energy sources and upgrades and expansions of the transmission systems in Europe. Such increases could have a material impact on Hydro's cost of power, which again would have a material impact on Hydro's operating results. As an example, the Norwegian transmission system operator, Statnett SF, has in January 2018 proposed amendments to the Norwegian tariff model which may, if adopted, result in increased tariffs for ordinary consumers and the industry.

In Brazil, the tax system is complex and volatile, with a broad range of direct and indirect taxes levied at the federal, state and municipal levels. Over the past several years, state finances in Brazil have deteriorated, which could lead to mounting pressure to increase tax revenues.

ICMS is a value added tax charged by Brazilian states on circulation of goods and services. ICMS tax rates vary from 7 to 25 percent and the tax base is the gross value of the transaction, including ICMS. Brazil has a general ICMS exemption on exports. Hydro's main operations in Brazil are located in the state of Pará, which has historically granted a deferral of the collection point for ICMS on certain goods and services. In 2015, the state of Pará granted a renewal of the ICMS deferral regime for Hydro Paragominas, Hydro Alunorte and Albras for a 15 year period. With this regulation, the companies are not entitled to book ICMS credits and the deferred ICMS tax is not due on the exports of goods. This regime is subject to several conditions which Hydro must comply with on an ongoing basis. A discontinuation of the ICMS deferral would materially adversely affect Hydro's operating results from its Brazilian operations.

Failure to comply with the requirements of the Brazilian Department of Mines with respect to exploration permits and mining concessions may result in a loss of title. Third

parties (including, but not limited to, indigenous persons) may dispute title to mineral concessions or the right to conduct mining or exploration activities.

Qatalum, a joint venture which Hydro owns 50/50 with Qatar Petroleum, was established in 2007 and started its first production in December 2009. Qatalum was at the outset granted a ten-year income tax holiday, expiring in 2020. According to the joint venture agreement, the generally applicable tax rate will apply after 2020. A tax reform came into effect from 2010, which introduced a generally applicable corporate income tax rate of 10 percent. A different tax rate may apply to entities with oil and gas operations or where the activities are carried out under an agreement with the government or entities owned by the government, unless the agreement specifies another tax rate. It is Hydro's position that the generally applicable income tax rate, currently at 10 percent, shall apply to Qatalum after the expiry of the tax holiday.

Environmental regulations have continued to tighten in various jurisdictions over the last years due to higher ambitions for national and international environmental targets. In the mining industry, recent major incidents (e.g. Samarco¹⁾) have increased public awareness and pressure towards authorities and politicians to impose further restrictions. In this context, Hydro and its joint ventures, face the risk of further tightening of environmental regulation requiring further resources to maintain our operations and avoid restrictions or delay in obtaining new licenses in the future.

Hydro is, directly and indirectly, exposed to increasingly demanding legislation on reducing greenhouse gas emissions. Hydro has substantial smelter operations located in Europe and other regions as well as alumina refining operations located in Brazil. Aluminium production is an energy-intensive process that potentially leads to significant environmental emissions, especially emissions to air, including CO₂. An increasing number of countries have introduced, or are likely to introduce in the near future, legislation with the objective of reducing greenhouse gas emissions. Due to the Paris climate accord conference in December 2015, there is a general belief that the political framework for regulating emissions of greenhouse gases will accelerate. There is also expected to be a focus on technology improvements leading to lower emissions. A new directive on EU/ETS is now being discussed in the EU. The outcome can affect the level of CO₂ price, the level of free allowances for direct emissions and compensation regime for indirect CO₂ cost.

Hydro has been an active participant in the development of international frameworks on climate change and greenhouse gas emissions supporting the establishment of a level playing field for global aluminium production. We engage in significant R&D activities focused on reducing energy consumption and improving electrolysis efficiency including anode consumption which is the main source of CO₂ emissions from our smelter operations.

Hydro is engaged in a systematic dialogue with local, state and federal politicians, industry associations, non-governmental organizations and local communities regarding the regulatory challenges facing its operations. The focus of the dialogue is on Hydro's contribution to a sustainable aluminium value chain and underlines the need for competitive and predictable framework conditions for our operations.

These efforts may fail or prove to be inadequate to mitigate the risks we face regarding changes in the regulatory framework or political environment in which we operate.

Hydro is exposed to a risk of unfavorable macro-economic development, including risk of prolonged periods of low aluminium and alumina prices and oversupply in the global aluminium market, in addition to changes in global trade policy framework

The aluminium industry is pro-cyclical with demand for products closely linked to economic development. This results in significant volatility in the market prices for aluminium products in periods of macroeconomic uncertainty or recession. Macroeconomic development also drives changes in currency values, which have a significant effect on Hydro's cost and competitive position.

In the past decade global aluminium oversupply and high global stock levels, have had a dampening effect on LME prices. Market conditions have improved since late 2016 and continued throughout 2017, supported by stronger global economic performance, not least in US and European markets, and a reduction in Chinese production growth following supply side reforms and environmental shutdowns. Despite this development, geopolitical and macroeconomic uncertainty continues. In the event that this leads to slower economic growth, demand in key downstream markets would also be affected.

Aluminium products are traded globally. Development in global trade flows, trade framework, tariffs and anti-dumping legislation are therefore of importance. Global trade framework and protectionism are moving higher on the

1) The Samarco mine dam failure in Brazil on November 5, 2015.

agenda, not least through the role of WTO, the new EU legislation on dumping products, Brexit and the agenda of the current US administration. The investigation on whether imports of aluminium and steel could impair US defense and security was launched in spring 2017 by US President Trump (Section 232). The aim is to shelter US industry from "...*unfair trade practices*" and other market distortions due to "...*large volumes of excess capacity*". The scope of the investigation is legally limited to defense and security.

On March 8th 2018, a 10 percentage tariff on imports to the US of primary aluminium and most fabricated products was announced, effective March 23rd. The following exemptions were made: 1) Mexico and Canada are exempted during NAFTA negotiations; 2) Other countries might petition to be exempt but subject to assessment (military allies and fulfill other requirements). Several countries are expected to pursue the possibility for exemptions. The objective of the tariff is to enable US primary aluminium production to reach an average capacity utilization of 80 percent from current 48 percentage (restart and/or ramp-up of up to five possible smelters). Even with smelter restarts, the US remains a major deficit region for aluminium, and will need to attract metal imports. It is therefore considered likely that the tariff will be largely absorbed in the Mid West premium. Any indirect effects on aluminium in the US or other markets remain uncertain.

The EU has recently finalized amendments to address previous issues on market economy status (MES) for China. This has been disputed by China.

The majority of Hydro's upstream, Bauxite, Alumina and Primary aluminium capacity, is located in countries where fluctuations in commodity prices are reflected in their exchange rates such as Norway, Brazil, Canada and Australia. There is a fairly strong historic correlation supporting this relationship, however with a volatility around the trend. If our main cost currencies strengthen going forward, this will increase our operating cost and may weaken our global competitive position relative to production from other regions.

Hydro's core strategy to reduce the risks related to weak economic and unfavorable market developments is the continuous improvement of our business in terms of operational efficiency, cost reductions and enhanced commercial strategies across the value chain. These efforts help us to partly offset the effects of low market prices and raw material cost increases. Hydro is engaged in a systematic dialogue with politicians and trade and industry associations, regarding the regulatory challenges facing its operations.

In order to secure financial liquidity, we concentrate on maintaining a strong balance sheet, sufficient undrawn credit facilities, capital discipline and a continued focus on working capital. However, the cost reductions and improvements that we target may prove to be insufficient to achieve a sustainable level of profitability for our business operations in the event of an extended period of low aluminium prices, significant strengthening of our local currencies, relatively high costs for key raw materials, or weak market demand.

These efforts may fail or prove to be inadequate to mitigate the risks we face regarding unfavorable macroeconomic developments.

Our business is exposed to competition from China, which could have a significant negative impact on market prices and demand for our products

China is the world's largest consumer and producer of aluminium, with more than half of the global production capacity. As a result, changes and developments in aluminium supply and demand in China have a significant impact on global market fundamentals.

Hydro is exposed to the development in China broadly on three levels; 1) Although the explicit effect on Hydro is limited, China's increased demand for imported bauxite and their solutions for covering their requirements affect global bauxite prices, 2) the risk of Chinese surplus aluminium production (i.e. increased capacity utilization) negatively affects prices outside China and 3) increases in Chinese exports of aluminium semis and fabricated products affect primary demand in the importing regions such as Europe and the US (Hydro core markets) and Asia (Hydro export markets).

Chinese alumina refineries and, consequently, aluminium smelters are dependent on imports of bauxite. Imported bauxite has traditionally been sourced from the Pacific region, with Australia, Indonesia and Malaysia as major suppliers. Following export restrictions imposed in Indonesia and Malaysia, increasing bauxite volumes have become available from Guinea to supply Chinese demand throughout 2016 and 2017. While the increased export volumes from Guinea have removed the risk of a bauxite supply shortage for China, sourcing from Guinea increases the freight distance and relative costs compared with Pacific supply sources.

In past years, China has followed a policy of promoting a balanced internal market for primary aluminium including incentives to discourage the export of primary metal while encouraging domestic production of more labor-intensive semi-fabricated and finished aluminium products. Over the last years, overcapacity in China led to a continued rise in

exports in the form of semi-fabricated products. Such exports affect metal prices outside China. Exports from China have varied considerably, driven, amongst other factors, by periodic arbitrage opportunities between Chinese and international metal prices. Volume-wise, exports have increased over the last years, but remained at 10-12 percentage of Chinese semis production. The Chinese central authorities have for several years voiced their concerns regarding the market surplus and inadequate implementation of regulations to discourage further smelter construction. In 2017, supply-side reform was enforced across several industries, including aluminium. The target was smelter capacity deemed to be illegal, i.e. not possessing all necessary authorizations. An estimated 3 mill tons of capacity was subsequently closed. An increase in the oversupply of primary metal in China may lead to higher export of rolled and extruded downstream products, affecting demand for Hydro's metal products.

Our dedicated improvement programs are the key strategies aimed at maintaining and improving our relative position on the industry cost curve. This is further supported by our focus on producing value-added products and exposure to different parts of the value chain and product segments. However, the targeted cost reductions and improvements may prove to be insufficient to achieve a sustainable level of profitability for our business operations in the event of an extended period of low aluminium prices, stronger local currencies, relatively high costs for key raw materials or weak market demand, or an extended period of significantly increased aluminium products exports from China.

These efforts may fail or prove to be inadequate to mitigate the risks we face regarding competition from China.

Hydro could be negatively affected by investigations, legal proceedings, material CSR incidents or major non-compliance with laws and regulations

Hydro could be negatively affected by criminal or civil proceedings or investigations related to, but not limited to product liability, environment, health and safety, alleged anti-competitive or corrupt practices or commercial disputes. Violation of applicable laws and regulations could result in substantial fines or penalties, costs of corrective work, the suspension or shutdown of our operations and substantial damage to the company's reputation.

In addition, Hydro is exposed to actual or perceived failures to behave in a socially responsible manner beyond regulatory requirements, as defined by non-governmental organizations or other key stakeholder groups. Such failures could result in significant, negative publicity and potential serious harm to

Hydro's reputation. Reactions by key stakeholders and communities in which Hydro operates could also interfere or interrupt the operations of our business.

Hydro has significant operations in Barcarena, Brazil, including the Alunorte alumina refinery and Albras aluminium smelter. Local social conditions are challenging with high levels of unemployment and general poverty. Social unrest in Barcarena could result in operational instability and reduced performance of the affected operations. Hydro has revised the CSR strategy and priorities, and aim to step up efforts in Barcarena to improve social conditions, and to strengthen stakeholder engagement and dialogue.

In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, led to regional flooding. Due to concerns over possible water contamination from Alunorte during this flooding, authorities have taken several measures against the alumina refinery. These include orders to reduce production by 50 percent and halt operations at its DRS2 bauxite residue deposit, which is currently under commissioning. In addition, suspending operations on one of two tailing dams at the Paragominas bauxite mine. All of these requirements have been fulfilled. Hydro issued a force majeure notice towards its alumina and alumina hydrate customers due to the production cuts and current lack of clarity into what measures it would take to return to normal operations.

Measures are being implemented to resolve the situation at Alunorte, including establishing an internal taskforce to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

Regardless of the cause of contamination, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

Fines of about NOK 50 million have been issued to Hydro by Brazilian federal authorities. As the period of reduced production and measures required to resume full production

is not yet known and potential additional negative effects might materialize, we are not in a position to estimate the financial impact of the incident.

Sapa Profiles Inc. (SPI), a Portland, Oregon-based subsidiary of Hydro Extruded Solutions AS (formerly Sapa AS) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding certain aluminum extrusions that SPI manufactured from 1996 to 2015, including extrusions that were delivered to a supplier to NASA. SPI is cooperating fully in these investigations. The investigations are currently ongoing, and, at this point, the outcome of the investigations and of any identified quality issues, including financial consequences, is uncertain. SPI also has been temporarily suspended as a federal government contractor. Based on the information 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. As part of the share purchase agreement the parties have agreed that Orkla ASA shall indemnify Hydro for 50 percent of any liability in relation to this case.

Hydro's board-sanctioned code of conduct requires adherence with laws and regulations as well as internal steering documents and is systematically implemented and followed up through our compliance system. The compliance system is based on four pillars: prevention, detection, reporting and responding. In addition to financial compliance, priority areas are HSE, Financial reporting, anti-corruption, data privacy, including the General Data Protection Regulation (GDPR), and competition law. Hydro's procedure for integrity risk management of business partners includes suppliers and customers, strategic partners and intermediaries/agents and sets requirements for integrity due diligence. Hydro is active in, and has a long tradition for, conducting dialogue with the relevant parties affected by our activities. These include unions, works councils, customers, suppliers, business partners, local authorities and non-governmental organizations. The above mentioned controls and initiatives may, however, be insufficient to mitigate these risks.

Hydro may fail to realize sufficient value in the execution and implementation of major projects or business acquisitions

Hydro makes significant capital investments and acquisitions as part of its business development, and may not be able to realize the benefits expected from such transactions and projects. Major projects and acquisitions are subject to significant risk, and uncertainty in making the investment evaluation, project execution and subsequent operations.

Acquisitions may also contain significant unidentified risks and liabilities, which could have a material adverse effect on our profits and financial position.

Hydro completed the acquisition of the remaining 50 % of Sapa AS ("Sapa") from Orkla ASA in October 2017. The integration of Sapa into Hydro's existing business may expose Hydro to additional risks, reputational damage, costs and financial losses. Hydro cannot be certain that the integration of Sapa into its existing business will result in the expected benefits from anticipated business opportunities, revenue enhancements or growth levels or that such results can be achieved in the time frame expected. Future business conditions and events may reduce, eliminate or delay Hydro's ability to realize them. Further, the growth and operating strategies for the Group following completion of the transaction may not be successful. Hydro may fail to realize the anticipated benefits of the transaction due to integration and other challenges, including, but not limited, to:

- complications consolidating corporate and administrative infrastructures, including information technology, communications and other systems;
- difficulties with retaining employees in the longer term;
- inability to coordinate research and development, marketing and other functions;
- diversion of management's attention and resources from ongoing business concerns; and
- difficulties mitigating contingent and assumed liabilities.

The inability to benefit from the business opportunities, revenue enhancements and overall growth or to meet the expected costs of integrating Sapa, or inability to achieve them within the expected time frame, could have a material adverse effect on Hydro's business, financial condition, operating results and/or cash flows

Hydro has built the Karmøy Technology Pilot to operationalize "next generation" cell and smelter technology developed together with key suppliers, and started production in January 2018. We may fail to achieve the expected technical enhancements and benefits for the existing smelter portfolio resulting from the new technology.

Technical issues caused delays in ramp up phase of both the Automotive line 3 in Germany and the new recycling line for used beverage cans (UBC). Hydro is a major supplier of aluminium sheet and coil to the European automotive market for interior and exterior vehicle body parts, chassis and component applications. The new Automotive line 3 is built to increase our nominal body-in-white capacity to 200,000 mt. The UBC line will expand Hydro's recycling capabilities and enhance sourcing of material for the Rolled

Products system. Further modifications and investments were undertaken in 2017 to enable ramp up to full output speed by year end 2018.

Hydro has made major investments in emerging and transitioning markets and future investments may occur or may be more likely to occur in countries characterized as emerging and transitioning markets. Investing in emerging and transitioning markets is demanding in terms of organizational capacity, cultural understanding, effort, knowledge and experience, and Hydro may not be capable of succeeding in expanding its business in such markets.

At the end of 2017, around half of our smelter capacity was owned through interests in joint ventures and partly-owned subsidiaries. Investments as a minority partner in jointly owned entities reduces Hydro's ability to manage and control this part of its portfolio. Investments in jointly owned entities, including those in which we hold a majority position, also entail the risk of diverging interests between business partners, which could impede Hydro's ability to realize its objectives, repatriate funds from such entities and to achieve full compliance with Hydro's standards.

In order to mitigate the risk associated with the execution and implementation of major projects, all capital projects in Hydro, including M&A projects, are subject to a formal, comprehensive, internal review process prior to making any commitment. Hydro is continuously working to improve our project evaluation and execution processes. This includes improving risk assessment, methodologies and clarifying and refining minimum return requirements for different parts of the value chain. These measures, may however, prove to be insufficient to mitigate the risks we face in the execution and implementation of major projects or business combinations.

Hydro could be adversely affected by disruptions or major incidents in our operations and may not be able to maintain sufficient insurance to cover all risks related to its operations

Hydro's business is subject to a number of risks and hazards which could result in disruptions to operations, damage to properties and production facilities, personal injury or death, environmental damages, monetary losses and possible legal liability. Some of our operations are located in close proximity to sizable communities. Major accidents could result in substantial claims, fines or significant damage to Hydro's reputation. Breakdown of equipment, power failures or other events leading to production interruptions in our plants could have a material adverse effect on our financial results and cash flows.

In 2013, power outages at our Alunorte alumina refinery resulted in significant production disruptions, having a

negative impact on operating results for the year. In 2016, power outage at the Årdal smelter caused a partial loss of production, some damage to equipment in addition to temporarily increasing the cost position of the plant. Hydro sources its bauxite from two main origins, the majority is via a 244 km pipeline from Paragominas to Alunorte, the remainder transported by vessel from MRN to Alunorte. Any major disruption to this supply of bauxite to Alunorte would have material adverse effects on our operations.

In addition, the potential physical impacts of climate change on our facilities and operations is highly uncertain and may cause disruptions in our operations. Effects of climate changes may include changes in rainfall patterns, flooding, shortages of water or other natural resources, changing sea levels, changing storm patterns and intensities, and changing temperature levels.

In order to reduce the risk of disruptions of our operations and potential consequences, we perform regular risk assessments and engage in comprehensive emergency preparedness training for key managers and employees. The scope of risk assessments has been expanded over time. We have also focused on increasing our resilience against power outages including automation of substations and power generating facilities as well as improved back-up facilities.. Although Hydro maintains insurance to protect against certain risks in such amounts as it considers reasonable and in accordance with market practice, its insurance may not cover all the potential risks associated with Hydro's operations. These measures may be insufficient to mitigate the risks associated with operational disruptions or major incidents.

Hydro may be unable to achieve or maintain the operational targets necessary to secure the competitiveness of our business

Hydro operates in a highly competitive market where operational excellence in all parts of the value chain is required to reach and maintain a competitive position. This includes each step of the business process from the sourcing of raw materials, to physical operations of each plant, and the commercial optimization of the product portfolio. Failure to create an environment and competence which enables the organization to continuously achieve stretched operational targets will reduce the competitiveness of our business and result in the failure to meet our long-term financial targets.

Operational performance may also be inhibited by other factors such as the inability to develop necessary technical solutions; changes or variations in geologic conditions, environmental hazards, weather, climate change or natural phenomena; mining and processing equipment failures and unexpected maintenance problems and interruptions. Driving improvements and performance is heavily dependent

on achieving sufficient capacity and skill in the workforce. Substantial parts of the Brazilian operation are located in remote areas where it has been difficult to attract and retain the competence required to achieve our performance goals for these operations. In addition, Hydro's bauxite reserves in Brazil and the estimated quantities of bauxite that Hydro expects can be economically mined and processed are subject to material uncertainties.

Hydro issued a notice of force majeure to its bauxite customers in September 2017 as it did not receive the full contracted volumes from its supplier, MRN, due to lower production at the bauxite mine. A persistent reduction in the contracted supply of bauxite from MRN would be a risk to Hydro's long term sourcing position and operational targets.

The operational performance of Hydro's production assets has been gradually improved over the past several years through the implementation of defined improvement programs. Unrelenting focus on continuous improvement is necessary for Hydro to maintain and further improve the competitiveness of our portfolio. This is reflected in the significant improvements targeted under the "Better" program for 2019.

Our operations, and in particular our aluminium smelters, are dependent upon large volumes of energy. Securing new, competitive energy sources for our business is a key operational target and our business could be materially adversely affected by the inability to replace, on competitive terms, our long-term energy supply contracts when they expire, or our own electricity production, to the extent that concessions revert to the Norwegian state. Hydro has, over the last years, secured several long term power supply contracts in Norway. In 2016, an important regulatory change was implemented in Norway that allows for private ownership to waterfalls through companies with liability, often referred to as industrial ownership or ANS/DA, enabling further progress on Hydro's work to re-structure ownership and protect the value of our power assets.

A cornerstone in our work to reach operational targets and secure the competitiveness of our operations is the use of standardized Business Systems to structure and formalize continuous improvement work. Improvements are also supported by benchmarking to identify and implement best practices between our business areas. We are also engaged in a number of initiatives to identify and secure competitive energy supplies for our operations, and are actively involved in promoting a sustainable energy policy in the regions where we operate. However, we may not succeed in achieving or maintaining the operational targets necessary to secure our competitiveness. We may also fail to identify and secure sufficient competitive energy supplies for our operations.

Hydro is exposed to the threat of cyber attacks which may disrupt its business operations, and result in reputational harm and other negative consequences

Hydro's IS/IT infrastructure is a critical element in all parts of our operations, ranging from process control systems at production sites, central personnel databases to systems for external financial reporting. Cyber crime is increasing globally, and Hydro is exposed to threats to the integrity, availability and confidentiality of our systems. Threats may include attempts to access information, computer viruses, denial of service and other electronic security breaches.

Hydro has launched several initiatives to increase the robustness of its IS/IT infrastructure towards malicious attacks by improving system infrastructure and educating employees to develop and improve secure work processes and routines. However, these initiatives may fail to deliver the expected results or prove to be inadequate to prevent cyber attacks or security breaches that manipulate or improperly use our systems or networks.

Hydro financial position and key financial exposures

Financial position

Our main strategy for mitigating risk related to volatility in cash flow is to maintain a strong balance sheet. Specific key financial ratio levels over the business cycle are targeted, reflecting a solid financial position and investment grade credit rating. These include an Adjusted net cash (debt) to equity ratio below 0.55 and a ratio of Funds from operations to Adjusted net cash (debt) above a level of 0.40. Maintaining investment grade credit rating can secure access to capital markets at attractive terms and gives other important benefits.

Hydro's liquidity position at the end of 2017, a net debt of NOK 4.1 billion, is considered solid. Hydro also has a credit facility of USD 1.7 billion which expires in 2020. Drawing per year-end 2017 was approximately NOK 3 billion, and was repaid in January 2018. Hydro continues to focus on cash flow and credit risk throughout the organization.

Key financial exposures

Hydro's operating results are primarily affected by price developments of our main products, raw materials, margin developments and to fluctuations in the most significant currencies for Hydro, which are the USD, NOK, EUR and BRL.

Hydro's main risk management strategy for upstream operations is to accept exposure to price and exchange rate movements, while at the same time focusing on reducing the average cost position of production assets. In certain circumstances, derivatives may be used to hedge certain revenue and cost exposures. Long term, the only true hedge is cost competitive operations, and the only long-term hedge against market volatility is to maintain a low-cost asset base.

Downstream and other margin-based operations are to a certain extent hedged to protect processing and manufacturing margins against price fluctuations. An operational hedging system has been established to protect commercial contracts from aluminium price fluctuations.

To mitigate the impact of exchange rate fluctuations, long-term debt is mainly maintained in currencies reflecting underlying exposures and cash generation, while considering attractiveness in main financial markets. Hydro may also use foreign currency swaps and forward currency contracts to reduce effects of fluctuations in the US dollar and other exchange rates.

The table below show sensitivities regarding aluminium prices and foreign currency fluctuations for 2018. The table illustrates the sensitivity of earnings, before tax, to changes in these factors and is provided to supplement the sensitivity analysis required by IFRS, included in note 13 to the Consolidated Financial Statements. These sensitivities do not consider revaluation effects of derivative instruments, which may influence earnings.

Commodity price sensitivity +10%

NOK Million	UEBIT
Hydro Group	
Aluminium	3 900

Currency sensitivities +10%

NOK Million	USD	BRL	EUR
Sustainable effect			
EBIT	3 860	(1 210)	(230)
One-off reevaluation effect			
Financial items	280	550	(2 170)

Annual sensitivities based on normal annual business volumes. LME USD 2 100 per mt, fuel oil USD 440 per mt, petroleum coke USD 400 per mt, caustic soda USD 645 per mt, coal USD 85 per mt, USDNOK 8.20, BRLNOK 2.50, EURNOK 9.60

Aluminium price sensitivity is net of aluminium price indexed costs and excluding unrealized effects related to operational hedging

BRL sensitivity calculated on a long-term basis with fuel oil assumed in USD. In the short term, fuel oil is BRL-denominated

Excludes effects of priced contracts in currencies different from underlying currency exposure (transaction exposure)

Currency sensitivity on financial items includes effects from intercompany positions and embedded derivatives related to long-term power sourcing contracts

In accordance with IFRS requirements, Hydro has chosen to provide information about market risk and potential exposure to hypothetical loss from its use of derivative financial instruments and other financial instruments, and derivative commodity instruments through sensitivity analysis disclosures. Please see note 13 to the Consolidated Financial Statements for more information, and for additional information on these disclosures.

Legal proceedings

Sapa Profiles Inc. (SPI), a Portland, Oregon based subsidiary of Hydro Extruded Solutions AS (formerly Sapa AS) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding certain aluminum extrusions that SPI manufactured from 1996 to 2015, including extrusions that were delivered to a supplier to NASA. SPI is cooperating fully in these investigations. The investigations are currently ongoing, and, at this point, the outcome of the investigations and of any identified quality issues, including financial consequences, is uncertain. SPI also has been temporarily suspended as a federal government contractor. Based on the information currently known to Hydro, Hydro does not expect any resulting liabilities to have a material adverse effect on its consolidated results of operations, liquidity or financial position. As part of the share purchase agreement the parties have agreed that Orkla ASA shall indemnify Hydro for 50 percent of any liability in relation to this case.

The Group is engaged in a large number of legal proceedings and disputes around the world. As of the date of this Annual Report, based on the Company's current assessment, neither the Company nor any other company in the Group are, nor have during the course of the last 12 months, except for the dispute described above, been involved in any governmental, legal or arbitration proceedings, which may have, or have had in the recent past significant effects on the Company and/or the Group's financial position or profitability.

Shareholder information

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QUICK OVERVIEW

Hydro's share price closed at NOK 62.4 at the end of 2017. The return ex. dividend for 2017 was positive with NOK 21.1, or 51 percent. Hydro's Board of Directors proposes to pay a dividend of NOK 1.75 per share for 2017, for approval by the Annual General Meeting on May 7, 2018, reflecting Hydro's strong operational performance for 2017 and solid financial position.

There were 2,068,998,276 issued shares at the end of 2017. A total of 1.7 billion Hydro shares were traded on the Oslo Stock Exchange during 2017 at a value of NOK 86 billion, making Hydro the third most traded company on the OSE. The average daily trading volume for Hydro shares on the OSE during 2017 was 6.6 million.

Hydro's shares are listed on the Oslo Stock Exchange, while our American Depositary Shares (ADSs) trade on OTCQX International in the US, the premium over-the-counter market tier. During 2017, Hydro initiated the process of delisting from the London Stock Exchange, and the delisting was completed in October 2017.



Share price development in 2017



Introduction

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Dividend policy

Long-term return to shareholders should reflect the financial value created by Hydro over time. Total shareholder return consists of dividends and share price development. Over time, value creation should be reflected to a greater extent by share price development rather than by dividends. Hydro's policy is to pay out a predictable dividend and in the long term to pay out, on average, 40 percent of net income as ordinary dividend over the cycle to our shareholders. The dividend policy has a floor of NOK 1.25 per share. In setting the dividend for a specific year, Hydro will take into consideration expected earnings, future investment opportunities, the outlook for world commodity markets and our financial position. Share buybacks or extraordinary dividends may supplement ordinary dividends during periods of strong financials, due consideration being given to the commodity cycle and capital requirements for future growth. The total payout should reflect Hydro's aim to provide its shareholders with competitive returns benchmarked against alternative investments in comparable companies.

Hydro's Board of Directors normally proposes a dividend per share in connection with the publication of our fourth quarter results. The Annual General Meeting then considers this proposal in May each year, and the approved dividend is subsequently paid to shareholders in May or June. Hydro pays dividends once each year. For non-Norwegian shareholders, Norwegian tax will be deducted at source in accordance with the current regulations.

Buyback of shares

In periods when earnings are high, Hydro may consider buying back shares in addition to ordinary or extraordinary dividend payments. This consideration will be made in the light of alternative investment opportunities and our financial situation. In circumstances when share buybacks are relevant, our Board of Directors proposes buyback authorizations to be considered and approved by the Annual General Meeting. Authorizations are granted for a specific time period and for a specific share price interval during which share buybacks can be made.

Funding and credit quality

Maintaining a strong financial position and an investment grade credit rating are viewed as important risk mitigating factors, supporting Hydro's possibilities for strategic development of its businesses. Access to external financial resources is required in order to maximize value creation over time, balanced with acceptable risk exposure. To secure access to debt capital on attractive terms, we aim at maintaining an investment grade credit rating from the leading rating agencies.

Contributing toward this ambition to retain our credit rating, we intend to keep our funds from operations at a level equal to or above 40 percent of adjusted net debt, in addition to adjusted net debt at a ratio not higher than 55 percent of equity capital over time. In calculating these ratios, we include pension obligations, operating lease commitments, share of net debt in equity accounted investments and certain other debt-like items. For a discussion of these adjustments see Note 38 - Capital Management in the Financial Statements section of this report.

Major shareholders and voting rights

As of December 31, 2017, Hydro had 42,163 registered shareholders as per the Norwegian Central Securities Depository (VPS). The Ministry of Trade, Industry and

Hydro's 20 largest shareholders, December 31, 2017

Shareholder	Number of shares	Ownership interest
Ministry of Trade, Industry and Fisheries	708 865 253	34.3%
Folketrygdfondet	133 912 794	6.5%
Capital World Investors	64 576 000	3.2%
BlackRock Institutional Trust Company, N.A.	44 490 748	2.2%
Acadian Asset Management LLC	38 769 376	1.9%
The Vanguard Group, Inc.	34 922 092	1.7%
Schroder Investment Management Ltd. (SIM)	27 994 415	1.4%
KLP Forsikring	26 420 224	1.3%
SAFE Investment Company Limited	25 220 851	1.2%
JPMorgan Asset Management U.K. Limited	25 088 928	1.2%
Capital Research Global Investors	24 587 996	1.2%
Storebrand Kapitalforvaltning AS	23 899 910	1.2%
J O Hambro Capital Management Limited	22 906 576	1.1%
State Street Global Advisors (US)	19 467 153	1.0%
INVESCO Asset Management Deutschland GmbH	18 416 101	0.9%
AllianceBernstein L.P.	16 219 335	0.8%
EARNEST Partners, LLC	15 267 073	0.7%
Alfred Berg Kapitalforvaltning AS	15 124 269	0.7%
Turiya Advisors Asia Limited	15 100 000	0.7%
Investec Asset Management Ltd.	14 076 733	0.7%

Source: The data is provided by Nasdaq through the Share register Analyses services. The data is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Hydro share register. Whilst every reasonable effort is made to verify all data, Nasdaq can not guarantee the accuracy of the analysis. For a list of the largest shareholders as of December 31, 2017, from the Norwegian Central Securities Depository (VPS), see Note 13 in Notes to the financial statements Norsk Hydro ASA. Due to lending of shares, an investor's holdings registered in its VPS account may vary.

Fisheries of Norway was the largest of these with a shareholding of 34.26 percent of the total number of ordinary shares authorized and issued, and 34.67 percent of the total shares outstanding. As of the same date, The Government Pension Fund - Norway (Folketrygdfondet) owned 6.47 percent of the total number of ordinary shares issued and 6.55 percent of the total shares outstanding. There are no different voting rights associated with the ordinary shares held by the state.

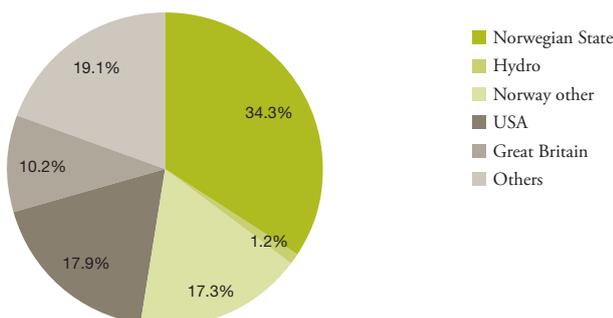
The Norwegian Ministry of Trade, Industry and Fisheries represents the Norwegian government in exercising the state's voting rights. The state has never taken an active role in the

day-to-day management of Hydro and has for several decades not disposed of any of the ordinary shares owned by it, except when participating in the share buyback programs.

JPMorgan Chase & Co, as depositary of the ADSs, through its nominee company, Morgan Guaranty Trust Company, held interests in 8,369,899 ordinary shares, or 0.4 percent of the outstanding ordinary shares as of December 31, 2017. The interests are on behalf of 310 registered holders of ADSs.

All shares carry one vote. It is, however, a requirement of Norwegian legislation that a shareholder can only vote and have preferential subscription rights for shares registered in their name. Shares registered with a nominee account must be re-registered in the Norwegian Central Securities Depository, *Verdipapirsentralen* (VPS), before the Annual General Meeting in order to obtain voting rights. This requirement also applies to our US-traded ADSs.

Geographical ownership distribution of shares



Source: Norwegian Central Securities Depository (VPS)

Hydro cannot guarantee that beneficial shareholders will receive the notice for a general meeting in time to instruct their nominees to affect a re-registration of their shares. Hydro is organized under the laws of the Kingdom of Norway. It may be difficult for investors to effect service of process outside Norway upon Hydro or its directors and executive officers, or to enforce against Hydro or its directors and executive officers judgments obtained in other jurisdictions. Norwegian courts are unlikely to apply other than Norwegian law when deciding on civil liability claims under securities laws.

Key figures for the Hydro share

	2017	2016	2015	2014	2013 ¹⁾
Share price high, Oslo (NOK)	64.15	43.05	47.68	42.90	29.09
Share price low, Oslo (NOK)	41.03	26.00	26.54	26.87	23.86
Share price average, Oslo (NOK)	52.27	34.31	35.58	34.03	25.89
Share price year-end, Oslo (NOK)	62.35	41.30	33.13	42.44	27.07
Earnings per share (EPS) (NOK)	4.30	3.13	0.99	0.39	(0.45)
EPS from continuing operations (NOK) ²⁾	4.30	3.13	0.99	0.39	(0.54)
Dividend per share (NOK) ³⁾	1.75	1.25	1.00	1.00	0.75
Pay-out ratio ⁴⁾	41%	40%	101%	256%	-
Dividend growth	40%	25%	0%	33%	0%
Pay-out ratio five year average ⁵⁾	70%	133%	110%	95%	86%
Adjusted debt/equity ratio ⁶⁾	0.26	0.14	0.20	0.26	0.22
Credit rating, Standard & Poor's	BBB	BBB	BBB	BBB	BBB
Credit rating, Moody's	Baa2	Baa2	Baa2	Baa2	Baa2
Non-Norwegian ownership, year-end	47%	45%	40%	35%	33%
Outstanding shares, average	2 044 105 404	2 042 481 930	2 041 000 645	2 039 501 461	2 038 416 268
Outstanding shares, year-end	2 044 697 348	2 042 894 116	2 041 587 692	2 039 832 288	2 038 789 033

1) Figures for 2013 have been adjusted reflecting IFRS 11

2) Extruded Products is included as discontinued operations from January 1, 2012 to August 31, 2013

3) 2016 dividend per share proposed by Board of Directors, dependent on approval from the Annual General Meeting May 3, 2017.

4) Dividend per share divided by earnings per share from continuing operations.

5) Dividend per share divided by earnings per share from continuing operations for last five years.

6) See note 38-Capital management in the Consolidated Financial Statements.

Information from Hydro

Communicating with the stock market is given high priority, and Hydro aims to maintain an open dialogue with market participants. Our objective is to provide sufficient information on a timely basis to all market participants to ensure a fair valuation of our shares. Information that is considered price sensitive is communicated by news releases and stock exchange announcements. We host regular meetings for investors in Europe and the US. The major brokers in Oslo and London publish equity research reports on Hydro. All information about Hydro is published on our website: www.hydro.com

Our annual and quarterly reports are available on www.hydro.com, and our latest annual reports can also be ordered in printed versions from the website.

Two weeks before the announcement of quarterly results, Hydro practices a "silent period", meaning that contact with external analysts, investors and journalists is limited. This is done to minimize the risk of information leaks and potentially unequal information in the marketplace.

Annual General Meeting

The Annual General Meeting will be held at the company's offices at Drammensveien 260, Oslo, Norway, on Monday, May 7, 2018, at 14:00 CET. Shareholders who wish to attend are asked to inform the registrar by 12:00 CET on Thursday, May 3:

DNB Bank ASA
Registrar's Department
P.O.Box 1600 Sentrum
N-0021 Oslo, Norway

You may also register electronically on our website www.hydro.com/register or via VPS Investor Services. Any shareholder may appoint a proxy with written authority to attend the meeting and vote on his or her behalf. Voting rights are discussed under "Major shareholders and voting rights".

Change of address

Shareholders registered in the Norwegian Central Securities Depository should send information on changes of address to their registrar and not directly to Hydro.

Financial calendar 2018

April 25	First quarter results
May 7	Annual General Meeting
May 8	Shares traded ex-dividend
May 9	Record date for dividend
May 18	Dividend payment date
July 24	Second quarter results
October 24	Third quarter results

Hydro reserves the right to revise these dates.

Corporate governance

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QUICK OVERVIEW

Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our corporate governance has been designed to provide a foundation for value creation and to ensure good control mechanisms. We maintain common requirements in the form of corporate directives that are mandatory for all parts of our organization.

Our corporate directives help ensure that all our employees carry out their activities in an ethical manner and in accordance with current legislation and Hydro standards. The board of directors has approved our Code of Conduct, which applies to all employees throughout the world, as well as to board members of Hydro and its subsidiaries. The code addresses compliance with laws and other matters such as handling of conflicts of interest and a commitment to equal opportunities for all employees. Our integrity program contributes to compliance with anti-corruption legislation and basic human rights.

Hydro follows the Norwegian code of practice for corporate governance of October 2014.



Based in Norway, Hydro has 35,000 employees involved in activities in 40 countries.

Introduction

Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our share listing is on Oslo Børs, which subjects us to Norwegian securities legislation and stock exchange regulations. Hydro had a secondary listing on London Stock Exchange, which was delisted as of 1 November 2017. In the United States the shares are traded on OTCQX International, the premium over-the-counter market tier, in the form of American Depositary Receipts evidencing American Depositary Shares, which carry the same shareholder rights as ordinary shares.

We have developed our governance structure through cooperation between our corporate management board and our superior governance bodies to secure compliance with relevant laws and regulations, Hydro's corporate directives and to reflect business needs. Development of the governance structure is a continuous process.

We follow the Norwegian Code of Practice for Corporate Governance of October 2014. A detailed description of how we comply - including deviations - is presented in the Board of Directors' report. Information regarding our shareholder policy can be found in the section Shareholder information in this report.

Hydro's strategic direction is described in the Board of Directors' report. More comprehensive information about our governance practices, policies and requirements can be found at www.hydro.com/governance

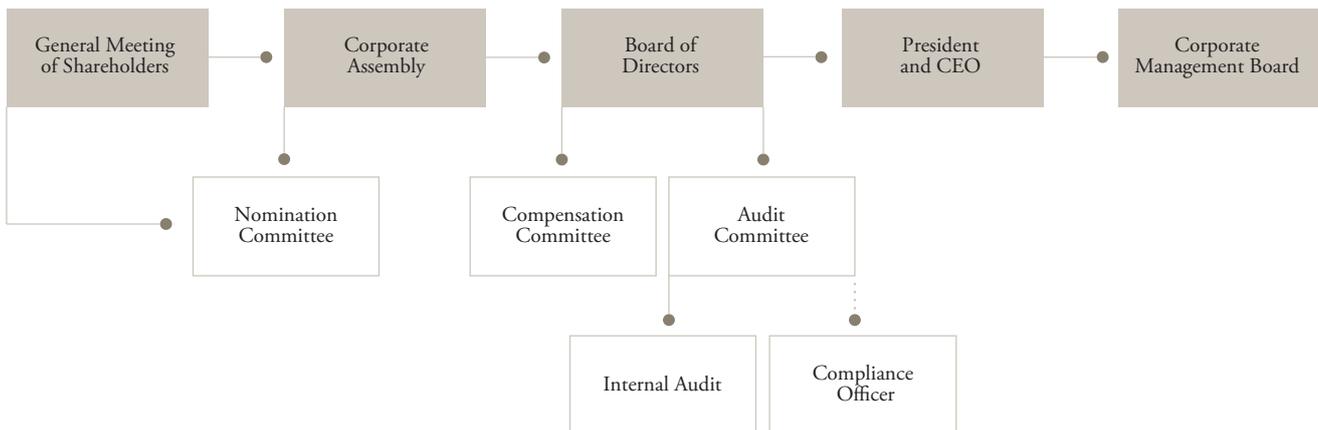
Global directives and Code of Conduct

The Hydro Way represents our framework for leadership, organization and culture and is the foundation of our governance system. See page 103 for further information.

Our system is based on the delegation of responsibility to our business areas and to corporate functions whose duties include finance, tax and accounting, HSE, CSR, legal and compliance. In order to maintain uniformly high standards, we set common requirements in the form of constituting documents and global directives. Constituting documents are approved by Hydro's board of directors, the corporate assembly or the general meeting of shareholders, while global directives are approved by the President and CEO. These documents address a number of areas, including health, security, safety and environment (HSE), ethics and social responsibility, strategy and business planning, finance, risk management, and organizational and employee development. This information is made available to all employees. For legal entities where Hydro holds less than 100 percent of the voting rights, Hydro's representatives in the boards of directors shall act in compliance with Hydro's Code of Conduct and endeavor to implement the principles as laid down therein.

Hydro's Code of Conduct is a constituting document and applies to all Hydro employees throughout the world, as well as to board members of Hydro and its subsidiaries. See page 103 for more information about Hydro's Code of Conduct, whistleblowing procedure and integrity program, and www.hydro.com/principles for more information regarding our corporate directives.

Governance bodies in Hydro



In Hydro, compliance is defined as adherence to applicable laws and regulations as well as Hydro's corporate directives. Guidelines have been established to assist line management to adhere to Hydro's compliance requirements. Special emphasis is made on reducing the risk of non-compliance within finance, anti-corruption, competition, health, security, safety and environment.

Business planning and risk management

Hydro's overall goal is to create shareholder value through satisfied customers and motivated and competent employees. We have defined two main processes to ensure that short and long-term targets are achieved.

The portfolio, strategy and business planning process involves strategic and operative planning and results monitoring. The planning, which reflects our ambitions and values, is the basis for the strategies and measures that form the business plans at all levels of our organization. We have defined key performance indicators relevant for each unit, including financial, human resource, ethical, HSE and climate change related objectives, in addition to unit-specific operating targets.

Hydro's people performance and development process, My Way, is designed to assess and develop our human resources, and includes appraisal dialogue, individual development and follow-up, as well as talent planning and succession management. Its aim is to promote the potential of individual employees and of our organization as a whole and is integrated with our annual business planning process.

Risk management is also an integrated part of our planning and reporting process. Risk management deals with all aspects of value creation, including strategy, finance, commercial matters, organization, climate change, HSE, reputation, corporate responsibility, regulatory and legal matters. Hydro's board of directors regularly reviews and evaluates the overall risk management systems and environment within Hydro. We carry out risk assessments for defined exposure areas. Exposure to certain risks, particularly those threatening life and health, has been consistently

reduced to very low levels. See also the Board of Directors' report for a more detailed discussion of Hydro's risk management.

Controls and procedures

Hydro's Internal Control over Financial Reporting (ICFR) framework is primarily designed to provide reasonable assurance to our management and the board of directors regarding the preparation and fair presentation of our Financial Statements.

Hydro's ICFR framework is based on the COSO 2013 Internal Controls Integrated Framework which consists of five interrelated components and 17 relevant principles that must be present and functioning. The five COSO elements are: Control Environment, Risk Assessment, Control activities, Information and Communication, and Monitoring activities.

Our overall control environment for financial reporting is governed by our ICFR Global Directives, and reflects the tone set by the common attitudes, ethics, and values, and competence of top management and management, and all the rest of our employees.

The ICFR framework is implemented through a risk-based and top-down approach, to provide appropriate organization of the financial reporting, ensuring that Hydro's activities, accounts, and management are subject to adequate control.

Hydro's disclosure committee assists the CEO and the CFO in ensuring fairness, accuracy, completeness, and timeliness of Hydro's public reports and disclosures, both financial and extra-financial. The disclosure committee is also an integral component of Hydro's disclosure controls and procedures and assesses Hydro's compliance initiatives pertaining to ICFR. The disclosure committee reports quarterly a summary of its activities to the board audit committee. Through reporting from the disclosure committee and internal audit, the audit committee takes an active role in ensuring the functioning of the ICFR framework. The board of directors and the audit committee meet at least annually with the

Hydro's portfolio, strategy and business planning process



external auditor without members of the corporate management present. See page 148-149 and www.hydro.com/governance for additional details.

Pre-approval of audit services

The audit committee has a pre-approval policy governing the engagement of Hydro's primary external auditors to provide audit and non-audit services to Hydro or any entity within the group. Under this pre-approval policy, the audit committee has defined and pre-approved subcategories of audit and non-audit services. The audit committee's pre-approval policy includes annual monetary frames for each of the following categories of services:

- Audit
- Audit-related
- Tax
- Other - not related to financial audit and tax

Within the scope of the pre-approval policy, all services shall be pre-approved. The reported amounts for audit, audit-related, tax and other non-audit related services are within the monetary frames established by the audit committee.

Transparency and communication

Hydro's corporate culture embodies the principles of transparency and respect for others. Our ability to operate efficiently in the Norwegian market and internationally requires consistent and professional communication. We adhere, therefore, to the principles of transparency, honesty and accountability when interacting with our stakeholders.

Management compensation

Information concerning remuneration and remuneration policies, share ownership, loans outstanding and loan policy relating to Hydro's board of directors and corporate management board is disclosed in note 8-10 of the consolidated financial statements.

Board of directors

Dag Mejdell, chairperson

- Position: Non-executive Director
- Education: Degree in Economics and Business Administration (siviløkonom) from the Norwegian School of Economics (NHH)
- Current directorships: Chair of International Post Corporation, Chair of Sparebank 1 SR Bank ASA, NSB AS, Telecomputing Topco AS, Telecomputing Finco AS and his wholly-owned investment company Nobel Partners AS and deputy chairperson of SAS AB

Irene Rummelhoff, deputy chairperson

- Position: Executive vice president, New Energy Solutions in Statoil
- Education: Master of Science in Geology/Geophysics (sivilingeniør) from the Norwegian Institute of Technology (NTH)
- Current directorships: None

Billy Fredagsvik, employee representative

- Position: Process operator / full-time union official. Represents the Norwegian Confederation of Trade Unions (LO)
- Education: Trade school (mechanics)
- Current directorships: None

Finn Jebsen

- Position: Independent businessman
- Education: Degree in Economics and Business Administration (siviløkonom) from the Norwegian School of Economics (NHH). Master's degree in Business Administration from the University of California, Los Angeles
- Current directorships: Chairperson of Kavli Holding AS. Board member of A. Wilhelmsen AS, Nel ASA, Norfund, Future Technology AS and his wholly-owned company Fateburet AS

Name	Place of residence	Year of birth	Position	Board committee	Meetings attended	No. of Hydro shares ¹⁾	Director since	Term expires
Dag Mejdell	Oslo, Norway	1957	Chairperson	Chairperson Compensation committee	14	35 000	2012	2018
Irene Rummelhoff	Hafslund, Norway	1967	Deputy Chairperson	Compensation committee	12	5 000	2014	2018
Ove Ellefsen ²⁾	Håvik, Norway	1956	Director	Audit committee ²⁾	5	8 972	2011	2017
Billy Fredagsvik	Høyanger, Norway	1956	Director	Audit committee	14	4 587	2007	2019
Finn Jebsen	Oslo, Norway	1950	Director	Chairperson Audit committee	12	53 406 ³⁾	2007	2018
Sten Roar Martinsen	Kopervik, Norway	1962	Director	Compensation committee	14	5 643	2005	2019
Tor Egil Skulstad ⁴⁾	Matrand, Norway	1967	Informal observer ⁴⁾		3	0	2017	2019
Liv Monica Stubholt	Oslo, Norway	1961	Director	Audit committee	13	0	2010	2018
Svein Kåre Sund ⁵⁾	Sunnalsøra, Norway	1962	Director		9	5 208	2017	2019
Marianne Wiinholt	Klampenborg, Denmark	1965	Director	Audit committee	13	0	2016	2018
Thomas Schulz	Rungsted Kyst, Denmark	1965	Director		11	0	2016	2018

Total number of board meetings were 14. Jebsen abstained himself from discussions related to the Sapa transaction due to his long relationship with and equity share in Orkla.

1) As per 2017-12-31.

2) Ellefsen stepped down from the board as of 2017-05-23.

3) Including shares owned by Fateburet AS.

4) Skulstad is an informal observer in the board of directors on behalf of employees in Extruded Solutions. The role is temporary and was created effective 2 October 2017 until election of employee representatives in 2019. He is appointed by the Norwegian Trade Union Confederation.

5) Sund became member of the board as of 2017-05-23.

Sten Roar Martinsen, employee representative

- Position: Process operator / full-time union official representing the Norwegian Confederation of Trade Unions (LO)
- Education: Certificate of apprenticeship in electrochemistry. Work supervisor training
- Current directorships: None

Thomas Schulz

- Position: Group Chief Executive Officer, FL Smidth
- Education: PhD Mining & Mineral Processing, Rheinisch-Westfälische Universität Aachen RWTH, Germany
- Current directorships: None

Tor Egil Skulstad, informal observer/employee representative

- Position: Chief employee representative/full-time union official representing the Norwegian Confederation of Trade Unions (LO)
- Education: Air Force Candidate School, Machinery Focus School
- Current directorships: Board Member of Hydro Extruded Solutions AS, Hydro Extrusion Norway AS and Union Leader Fellesforbundet, Hydro Extruded Solutions AS

Liv Monica Stubholt

- Position: Partner, Advokatfirmaet Selmer DA
- Education: Candidate in Jurisprudence (cand. jur.) University of Oslo
- Current directorships: Chair of the board of the Russian-Norwegian Chamber of Commerce, Varanger Kraft AS, Klemetsrudanlegget AS and Rosneft Nordic Oil AS. Board member of Solveig Gas Norway AS, Broadnet AS and Biomega AS

Svein Kåre Sund, employee representative

- Position: Technical supervisor, Relining/part-time union official representative in The Norwegian Society of Engineers and Technologists (NITO). Representing the employees through the Central Cooperative Council (Sentralt samarbeidsråd)
- Education: Bachelor of Science, HIST Trondheim
- Current directorships: None

Marianne Wiinholt

- Position: Executive vice president and Chief Financial Officer, Ørsted (former Dong Energy A/S)
- Education: State Authorised public Accountant
- Current directorships: Board Member and Chair of the Audit committee of J. Lauritzen A/S. Board Member and Chair of the Audit Committee of Hempel A/S

Corporate Management Board

Name	Place of Residence	Year of birth	Employed in Hydro since	Current position since	Position	Number of Hydro shares ¹⁾
Svein Richard Brandtzæg	Oslo, Norway	1957	1985	2009	President and Chief Executive Officer	231 475
Kjetil Ebbesberg ²⁾	Düsseldorf, Germany	1971	2009	2015	EVP Rolled Products	47 857
Egil Hogna ^{3) 4)}	Oslo, Norway	1971	2017	2017	EVP Extruded Solutions	20 000
Eivind Kallevik ⁵⁾	Oslo, Norway	1967	1998	2013	EVP and Chief Financial Officer	50 535
Anne-Lene Midseim	Oslo, Norway	1968	1998	2015	EVP CSR, Compliance and General Counsel	21 221
Arvid Moss	Oslo, Norway	1958	1991	2010	EVP Energy and Corporate Business Development	147 203
Katarina Nilsson ⁴⁾	Oslo, Norway	1971	2017	2017	EVP People & HSE	0
Silvio Porto ⁵⁾	Belém, Brazil	1960	2014	2016	EVP Bauxite & Alumina	0
Inger Sethov	Høvik, Norway	1970	2005	2015	EVP Communication & Public Affairs	19 184
Hanne Simensen ⁶⁾	Oslo, Norway	1967	1994	2015	EVP People & HSE	19 646
Hilde Merete Aasheim ⁷⁾	Oslo, Norway	1958	2008	2008	EVP Primary Metal	82 287

EVP: Executive vice president

1) As per 2017-12-31

2) Ebbesberg also was employed in Hydro 1996-2007

3) Hogna also was employed in Hydro 1999-2003

4) Hogna and Nilsson became members of the Corporate Management Board as of 2017-10-01

5) Kallevik became the temporary head of Bauxite & Alumina as of 2018-03-05 in addition to his responsibility as CFO. Porto stepped down from the Corporate Management Board as of 2018-03-05

6) Simensen stepped down from the Corporate Management Board as of 2017-09-30

7) Aasheim also was employed in Hydro 2005-2007

Svein Richard Brandtzæg, President and CEO

- Key experience: Executive vice president and head of Aluminium Products. Head of Rolled Products. Head of Metal Products. Head of Magnesium
- Education: PhD, Norwegian Institute of Technology. Degree from the Norwegian School of Management
- External directorships: Chairperson of the Norwegian University of Science and Technology (NTNU)

Kjetil Ebbesberg

- Key experience: Executive vice president Metal Markets, Head of BU Foundry alloys, CFO for Metal Products, Managing director and Plant manager at Holmestrand rolling mill and CFO for the Norwegian retail group Coop
- Education: Master of Science in Business from Norwegian School of Economics and Business Administration (NHH)
- External directorships: Chair of the board of European Aluminium (EA), member of the board of Multiconsult ASA, Supervisory Board Aluminium Norf GmbH and German-Norwegian Chamber of Commerce

Egil Hogna

- Key experience: President & Chief Executive Officer in Sapa. Head of Downstream in Yara International, CFO in Yara, Head of Mediterranean in Yara. VP Supply Chain Metal Products in Hydro. Consultant at McKinsey & Company
- Education: Master of Science degree from the Norwegian university of science and technology (NTNU), and an MBA from INSEAD, France
- External directorships: None

Eivind Kallevik, CFO

- Key experience: Head of Finance Bauxite and Alumina. Responsible for integration planning of all functional areas in the Vale deal. Head of Corporate Financial Reporting, Performance and Tax. Head of Finance Aluminium Products. Head of Business Controlling Hydro Aluminium. Responsible for Trade Finance & Cash Management in Norsk Hydro ASA. Prior to Hydro, 6 years of Oil and Gas Financing in Christiania Bank og Kreditkasse
- Education: Master of Business Administration from University of San Francisco
- External directorship: None

Anne-Lene Midseim

- Key experience: Company Secretary; Head of Staffs in Bauxite & Alumina; Head of Corporate Social Responsibility; and Legal Counsel in Hydro. Resident Legal Advisor in East-Timor, Oil for development program, Lawyer for Norwegian law firm Vogt & co, Executive Officer in the Ministry of Oil and Energy
- Education: Candidate in Jurisprudence (cand. jur.) from University of Oslo
- External directorships: Member of the Nomination Committee of Transparency International Norge

Arvid Moss

- Key experience: Executive vice president and head of Corporate Strategy and Business Development. Project leader for the oil and gas merger agreement with Statoil. Head of Metal Products. Head of Automotive Structures
- Education: Degree in Economics and Business Administration (siviløkonom) from the Norwegian School of Economics (NHH)
- External directorships: President of the Confederation of Norwegian Enterprise (NHO)

Katarina Nilsson

- Key experience: Executive vice president HR in Sapa. Vice president Legal, HR & CSR, BA Precision Tubing in Sapa. Resident Partner in the law firm Vinge KB
- Education: Master of Law degree from Lund University. Bachelor of Arts degree in Chinese studies from University of London
- External directorships: None

Inger Sethov

- Key experience: Head of Communication & Public Affairs in Hydro. Head of Media Relations in Hydro. 10 years of experience as journalist and correspondent for Reuters and Dow Jones news agencies
- Education: BA Mass Communication & Journalism, California State University Fresno
- External directorships: None

Hilde Merete Aasheim

- Key experience: Head of Staff Functions and Corporate Services in StatoilHydro. Head of the integration between Statoil and Hydro's oil and gas activities. Head of Leadership and Culture in Hydro. 20 years of service in Elkem, three last years as head of the Silicon Division
- Education: Degree in Economics and Business Administration (siviløkonom) from the Norwegian School of Economics (NHH). Certified public accountant from NHH
- External directorships: Chairperson of the board of IAI (International Aluminium Institute)

Governance bodies

Description	Developments and events during the reporting year	References
<p>General meeting of shareholders</p> <p>Company shareholders exercise ultimate authority through the general meeting. Shareholders registered in VPS, the Norwegian Central Securities Depository, five working days in advance of the general meeting of shareholders can vote in person or by proxy. Invitations are sent to shareholders or to the shareholder's security deposit bank.</p> <p>The general meeting of shareholders:</p> <ul style="list-style-type: none"> • Elects the shareholders' representatives to the corporate assembly • Determines the remuneration of the corporate assembly • Elects the external auditor and approves the auditor's remuneration • Approves the statutory report according to Norwegian requirements and financial statements, including the dividend proposed by the board of directors and recommended by the corporate assembly • Elects the nomination committee and determines their remuneration • Deals with any other matters listed in the notice convening the meeting <p>Shareholders may, at least four weeks before an ordinary general meeting, request in writing that proposals for resolutions are submitted to the general meeting, or that items are added to the agenda.</p>	<p>General meeting in May</p>	<p>The protocols can be found at www.hydro.com/governance</p>
<p>Corporate assembly</p> <p>Normally eighteen members. Twelve are elected by the general meeting of shareholders, six are elected by and among the group's employees in Norway. The members are elected for a period of up to two years.</p> <p>In accordance with Norwegian law, the corporate assembly:</p> <ul style="list-style-type: none"> • Elects the board of directors and determines their remuneration • Nominates the external auditor to be elected by the general meeting of shareholders • Based on recommendations from the board of directors, makes decisions in matters relating to investments that are substantial in relation to Hydro's resources, and when closures and reorganizations will lead to significant changes for the workforce • Provides recommendations to the general meeting of shareholders with respect to approval of the board of directors' proposal regarding the financial statements and dividend 	<p>Five meetings. 89 percent meeting attendance.</p> <p><i>Members:</i> Terje Venold (chairperson), Susanne Munch Thore (deputy chairperson), Shahzad Abid, Rolf Arnesen, Nils Bastiansen, Anne Kverneland Boggsnes, Steinar Ekren, Anne-Margrethe Firing, Odd Arild Grefstad, Kolbjørn Havnes, Berit Ledel Henriksen, Bjørn Petter Moxnes, Birger Solberg, Unni Steinsmo, Sten-Arthur Sælør, Jorunn Johanne Sætre, Einar Øren, Bjørn Øvstetun.</p> <p><i>Deputy members:</i> Ylva Lindberg, Hilde C. Bjørmland, Nils Huseby, Jon Martin Bratthammer, Tone Hjelmtvedt, Jan Einan, Andreas Bakken, Morten Sundheim Jensen, Ann Kristin Prytz, Ellen Olstad, Gorm Gustavsen, Roar Jakobsen, Kari Sommerfeldt.</p>	<p>Note 10 to the consolidated financial statements for remuneration and share ownership</p> <p>Articles of association § 7-8 at www.hydro.com/governance</p>
<p>Nomination committee</p> <p>Minimum three and maximum four members appointed by the general meeting of shareholders. The chairperson of the committee and at least one of the other members shall be elected among the shareholder-elected corporate assembly members.</p> <p>Nominates candidates to the board of directors, the corporate assembly and the nomination committee, and proposes remuneration to the board, its sub-committees, the corporate assembly and the nomination committee.</p>	<p>17 meetings. 100 percent meeting attendance.</p> <p><i>Members:</i> Terje Venold (chairperson) Susanne Munch Thore Mette Wikborg Berit Ledel Henriksen</p>	<p>Articles of association § 5A and biographical information can be found at www.hydro.com/governance</p>
<p>Board of directors</p> <p>The board of directors currently holds 9 members. Six are elected by the corporate assembly, three elected by and among the company's employees in Norway, for a period of up to two years. In addition, the board has invited an informal observer, representing the former Sapa employees, to attend the board meetings, until the next ordinary election of employee representatives.</p> <p>In accordance with Norwegian law, the board of directors assumes the overall governance of the company, ensures</p>	<p>14 meetings. 94 percent meeting attendance.</p> <p>The board of directors is closely following the market and macro-economic developments relevant for the aluminium industry. In 2017 the board of directors had operational deep-dives into Energy and Rolled Products. The acquisition of the remaining 50% of the shares in Sapa AS, as well as the following integration of the Sapa organization, was high on the board of directors' agenda. The board of directors visited Brazil, including the bauxite mine in Paragominas and the alumina refinery at Alunorte.</p>	<p>The board's mandate can be found at www.hydro.com/governance</p> <p>Biographical information on the board members on page 182.</p>

Description	Developments and events during the reporting year	References
that appropriate management and control systems are in place and supervises the day-to-day management as carried out by the President and CEO.	The board of directors conducts an annual self-assessment of its work, competence and cooperation with management and a separate assessment of the chairperson. Also the board audit committee performs a self-assessment. The reviews are facilitated by the corporate advisory firm Lintstock. The main conclusions of all assessments were submitted to the nomination committee, which in turn assessed the board's composition and competence.	Note 10 to the consolidated financial statements for remuneration, share ownership and loans.
All shareholder-elected members are external. No members elected by employees are part of the company's executive management. Employee directors have no other service contractual agreements with the company outside of their employee contracts, though they are subject to their duties as board members.	All shareholder-elected members were in 2017 deemed to be independent according to the Norwegian standards. None of the company's non-employee board members had any other service contractual agreements with the company. Stubholt is since 1 September 2015 a partner of Advokatfirmaet Selmer ANS. Selmer invoiced services to Hydro in 2017 with a legal fee of 2 million NOK. Stubholt did not participate personally or directly in any form of provisions of legal services to Hydro. Finn Jøbsen holds, personally and through three companies controlled by him (Fateburet AS, Bele AS and Bela AS), a total of 387 740 shares in Orkla ASA. Consequently, he did not participate in the decision of the board of directors to acquire the remaining 50% of the shares in Sapa AS, nor in the deliberations of the board of directors on the value of the transaction.	
The board of directors has an annual plan for its work. It includes recurring topics such as strategy review, business planning, risk and compliance oversight, financial reporting, people strategy, succession planning as well as HSE and CSR.		
Compensation committee	9 meetings. 96 percent meeting attendance.	The mandate can be found at www.hydro.com/governance
Consists of three of the board of directors' members. The committee reviews the performance of, and puts forward proposals regarding the compensation of the President & CEO to the board of directors. The committee assists in evaluating the compensation of the corporate management board and in determining performance-promoting schemes for management.	<i>Members:</i> Dag Mejdell (chairperson) Irene Rummelhoff Sten Roar Martinsen ¹⁾ ¹⁾ Martinsen is employed in Hydro and represents the employees through the Norwegian Confederation of Trade Unions (LO). We believe that such reliance does not adversely affect, in any material way, the ability of the compensation committee to act independently or to satisfy the other requirements.	
Audit committee	Eight meetings. 98 percent meeting attendance. For self-assessment, see information on the Board of directors above.	The mandate can be found at www.hydro.com/governance Pre-approval of audit services on page 144.
Consists of four of the board of directors' members. The audit committee meets Norwegian requirements regarding independence and competence. The primary function of the Audit committee is to assist the Board in exercising its oversight responsibility, with respect to the integrity of the company's financial statements, the company's financial reporting processes and internal controls, the company's risk assessment and risk management policies, the qualifications, independence of the external auditor, the performance of the company's internal audit function, and the company's compliance system.	<i>Members:</i> Finn Jøbsen (chairperson) Liv Monica Stubholt Marianne Wiinholt Billy Fredagsvik ²⁾ ²⁾ Fredagsvik is employed in Hydro and represents the employees through the Norwegian Confederation of Trade Unions (LO). We believe that such reliance does not adversely affect, in any material way, the ability of the audit committee to act independently or to satisfy the other requirements.	
To ensure the independence of the internal audit function, the head of Internal Audit reports functionally to the board through the audit committee. The head of Corporate Compliance has a dotted reporting line to, and meets regularly, with the audit committee.		
The audit committee maintains a pre-approval policy governing the engagement of the company's primary and other external auditors to ensure auditor independence.		
President & CEO and corporate management board	38 meetings in 2017. Effective 01 October 2017, Egil Hogna was appointed EVP with a special responsibility for Extruded Solutions. Effective 01 October 2017, Katarina Nilsson was appointed EVP with a special responsibility for People and HSE, replacing Hanne Simensen.	Biographical information on page 184. Note 8 and 9 to the consolidated financial statements for remuneration, share ownership and loans.
According to Norwegian corporate law, the President & CEO constitutes a formal governing body that is responsible for the daily management of the company. The division of functions and responsibilities between the President & CEO and the board of directors is defined in greater detail in the rules of procedures established by the board. The Corporate Management Board (CMB), including the President & CEO, has a shared responsibility for promoting Hydro's objectives and securing the company's property, organization and reputation. Members of the CMB are also Executive vice presidents (EVPS) with responsibility for the respective business areas and corporate staffs.		

Revenue 2017

NOK MILLION

109,220

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Consolidated financial statements

Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended December 31	Notes	2017	2016
Revenue	7	109 220	81 953
Share of the profit (loss) in equity accounted investments	7, 31	1 527	985
Other income, net	15	2 947	1 030
Total revenue and income		113 693	83 969
Raw material and energy expense	16	69 848	52 151
Employee benefit expense	17	13 285	9 485
Depreciation and amortization expense	18	6 156	5 041
Impairment of non-current assets	19	5	433
Other	20, 21	12 209	9 848
Total expenses		101 504	76 958
Earnings before financial items and tax	7	12 189	7 011
Financial income	22	481	574
Financial expense	22	(1 596)	1 552
Financial income (expense), net		(1 114)	2 126
Income before tax		11 075	9 137
Income taxes	23	(1 891)	(2 551)
Net income		9 184	6 586
Net income attributable to non-controlling interests		401	199
Net income attributable to Hydro shareholders		8 783	6 388
Basic and diluted earnings per share attributable to Hydro shareholders	37	4.30	3.13

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

Consolidated statements of comprehensive income

Amounts in NOK million. Years ended December 31	Notes	2017	2016
Net income		9 184	6 586
Other comprehensive income			
Items that will not be reclassified to income statement			
Remeasurement postemployment benefits, net of tax	37	761	178
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	37	(2)	(41)
Total		759	137
Items that will be reclassified to income statement			
Currency translation differences, net of tax	37	(1 387)	4 114
Unrealized loss on securities, net of tax	37	(255)	(47)
Cash flow hedges, net of tax	37	174	115
Share of other comprehensive income that will be reclassified to income statement of equity accounted investments, net of tax	37	(736)	(281)
Total		(2 203)	3 901
Other comprehensive income		(1 444)	4 038
Total comprehensive income		7 740	10 624
Total comprehensive income attributable to non-controlling interests		103	889
Total comprehensive income attributable to Hydro shareholders		7 637	9 735

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

Consolidated balance sheets

Amounts in NOK million, December 31	Notes	2017	2016
Assets			
Cash and cash equivalents		11 828	8 037
Short-term investments	24	1 311	4 611
Trade and other receivables	25	19 983	10 884
Inventories	26	20 873	12 381
Other current financial assets	13	602	457
Total current assets		54 597	36 371
Property, plant and equipment	28	73 020	58 734
Intangible assets	29, 30	12 712	5 811
Investments accounted for using the equity method	31	11 221	19 807
Other non-current assets	13, 27	4 410	4 309
Prepaid pension	36	5 750	4 195
Deferred tax assets	23	1 617	1 566
Total non-current assets		108 730	94 422
Total assets	7	163 327	130 793
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	33	8 245	3 283
Trade and other payables	32	19 561	10 108
Provisions	34	2 296	1 417
Taxes payable		2 570	1 773
Other current financial liabilities	13	655	526
Total current liabilities		33 326	17 106
Long-term debt	33	9 012	3 397
Provisions	34	5 828	4 384
Pension liabilities	36	15 118	12 871
Other non-current financial liabilities	13	2 041	1 067
Other liabilities		2 228	1 944
Deferred tax liabilities	23	3 522	2 384
Total non-current liabilities		37 749	26 047
Total liabilities		71 075	43 153
Share capital	37	2 272	2 272
Additional paid-in capital	37	29 097	29 070
Treasury shares	37	(810)	(870)
Retained earnings		56 435	50 210
Other components of equity	37	80	1 224
Equity attributable to Hydro shareholders		87 074	81 906
Non-controlling interests		5 178	5 733
Total equity		92 252	87 640
Total liabilities and equity		163 327	130 793

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

Consolidated statements of cash flows

Amounts in NOK million. Years ended December 31	Notes	2017	2016
Operating activities			
Net income		9 184	6 586
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment	7, 18, 19	6 162	5 474
Share of profit in equity accounted investments	7, 31	(1 527)	(985)
Dividends received from equity accounted investments	31	2 247	836
Deferred taxes		(685)	563
Gain on sale of non-current assets		(2 046)	(226)
Net foreign exchange (gain) loss	22	875	(2 266)
Net sales of trading securities		57	44
Capitalized interest	22	(76)	(97)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		(554)	(187)
Inventories		(1 518)	(104)
Trade and other payables		1 013	483
Commodity derivatives		322	(29)
Other items		893	(74)
Net cash provided by operating activities	41	14 347	10 018
Investing activities			
Purchases of property, plant and equipment		(7 296)	(6 913)
Purchases of other long-term investments		(11 190)	(183)
Purchases of short-term investments		(5 094)	(4 650)
Proceeds from sales of property, plant and equipment		57	77
Investment grants received		636	563
Proceeds from sales of other long-term investments		49	475
Proceeds from sales of short-term investments		8 402	5 850
Net cash used in investing activities		(14 436)	(4 781)
Financing activities			
Loan proceeds		15 271	5 208
Principal repayments		(10 917)	(7 525)
Net increase in other short-term debt		2 515	265
Proceeds from shares issued		40	28
Dividends paid		(3 069)	(2 362)
Net cash provided by (used in) financing activities		3 840	(4 386)
Foreign currency effects on cash		40	269
Net increase in cash and cash equivalents		3 791	1 120
Cash and cash equivalents at beginning of year		8 037	6 917
Cash and cash equivalents at end of year		11 828	8 037

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

Consolidated statements of changes in equity

Amounts in NOK million	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other components of equity	Equity attributable to Hydro shareholders	Non-controlling interests	Total equity
December 31, 2015		2 272	29 068	(913)	45 850	(2 107)	74 169	5 159	79 329
Treasury shares issued to employees	37		1	44			45		45
Dividends	39				(2 043)		(2 043)	(320)	(2 362)
Capital contribution in subsidiaries								4	4
Items not reclassified to income statement in subsidiaries divested	37				16	(16)	-		-
Total comprehensive income for the year					6 388	3 348	9 735	889	10 624
December 31, 2016		2 272	29 070	(870)	50 210	1 224	81 906	5 733	87 640
Treasury shares issued to employees	37		27	60			87		87
Dividends	39				(2 556)		(2 556)	(702)	(3 258)
Capital contribution in subsidiaries								3	3
Items not reclassified to income statement in subsidiaries and JVs divested	37				(3)	3	-	40	40
Total comprehensive income for the year					8 783	(1 147)	7 637	103	7 740
December 31, 2017		2 272	29 097	(810)	56 435	80	87 074	5 178	92 252

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

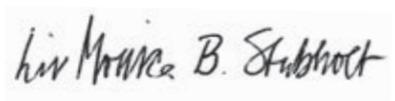
Oslo, March 19, 2018



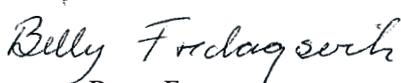
DAG MEJDELL
Chair



IRENE RUMMELHOFF
Deputy chair



LIV MONICA BARGEM STUBHOLT
Board member



BILLY FREDAGSVIK
Board member



FINN JEBSEN
Board member



STEN ROAR MARTINSEN
Board member



THOMAS SCHULZ
Board member



SVEIN KÅRE SUND
Board member



MARIANNE WIINHOLT
Board member



SVEIN RICHARD BRANDTZÆG
President and CEO

Notes to the consolidated financial statements

Note 1 - Reporting entity and basis of presentation

The reporting entity reflected in these financial statements comprises Norsk Hydro ASA and consolidated subsidiaries (Hydro). Hydro is headquartered in Oslo, Norway, and the group employs around 35,000 people in more than 40 countries. Hydro is a global supplier of aluminium with operations throughout the industry value chain. Operations include power production, bauxite extraction, alumina refining, aluminium smelting, remelting and recycling, rolling activities, and extruded solutions. The Board of Directors and the President and CEO authorized these financial statements for issue on March 19, 2018. Hydro is listed on the Oslo stock exchange, Oslo Børs.

Basis of presentation

The financial statements have been prepared on a historical cost basis except for certain assets, liabilities and financial instruments, which are measured at fair value. Preparation of financial statements including note disclosures requires management to make estimates and assumptions that affect amounts reported. Actual results may differ. See note 5 Critical accounting judgment and key sources of estimation uncertainty.

Presentation and classification of items in the financial statements is consistent for the periods presented. Gains and losses on disposal of non-current assets are presented net, as well as expenditures related to provisions that are reimbursed by a third party. However, insurance compensation and government grants are reported on a gross basis.

The functional currency of Norsk Hydro ASA is the Norwegian krone (NOK). The Hydro group accounts are presented in NOK.

As a result of rounding adjustments, the figures in one or more columns included in the financial statements may not add up to the total of that column.

Interest rates used for calculating net present values are rounded to the nearest 10 basis points for post employment benefits, to the nearest 25 basis points for other non financial assets and liabilities.

Note 2 - Significant accounting policies

The consolidated financial statements of Norsk Hydro ASA and its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and Norwegian authorities and are effective as of December 31, 2017. Hydro also provides the disclosure as specified under the Norwegian Accounting Law (Regnskapsloven).

The following description of accounting principles applies to Hydro's 2017 financial reporting, including all comparative figures. See note 1 Reporting entity and basis of presentation, note 4 Measurement of fair value, and note 5 Critical accounting judgment and key sources of estimation uncertainty for additional information related to the presentation, classification and measurement of Hydro's financial reporting.

Basis of consolidation

The consolidated financial statements include Norsk Hydro ASA and subsidiaries, which are entities in which Hydro has the power to govern the financial and operating policies of the entity (control). Control is normally achieved through ownership, directly or indirectly, of more than 50 percent of the voting power. Currently, Hydro has more than 50 percent of the voting power in all subsidiaries. Subsidiaries are included from the date control commences until the date control ceases.

Intercompany transactions and balances have been eliminated. Profits and losses resulting from intercompany transactions have been eliminated.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries held by other owners than Hydro. Non-controlling interests are reported as a separate section of the Group's equity in accordance with IFRS 10 Consolidated Financial Statements. Results attributed to non-controlling interests are based on ownership interest, or other method of allocation if required by contract.

Business combinations

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 Business Combinations. Consideration is the sum of the fair values, as of the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The fair value of Hydro's pre-existing ownership interest in an acquiree is included in the consideration, with any gain or loss recognized in Other income, net.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognized separately at the acquisition date at their fair value irrespective of any non-controlling interest. Goodwill is initially measured either as the excess of the consideration over Hydro's interest in the fair value of the acquiree's identifiable net assets (partial goodwill), or as the fair value of 100 percent of the acquiree in excess of the acquiree's identifiable net assets (full goodwill). The method is elected on a transaction-by-transaction basis. Hydro has applied the partial goodwill method for all business combinations completed prior to December 31, 2017. Goodwill is not amortized, but is tested for impairment annually and more frequently if indicators of possible impairment are observed, in accordance with IAS 36 Impairment of Assets. Goodwill is allocated to the cash generating units or groups of cash generating units expected to benefit from the synergies of the combination and that are monitored for internal management purposes.

The interest of non-controlling shareholders in the acquiree is initially measured as the non-controlling interests' proportion of the fair value of the net assets recognized (partial goodwill method), or as the non-controlling interests' proportion of the fair value of the acquiree (full goodwill method). Non-controlling interests are subsequently adjusted for changes in equity of the subsidiary after the acquisition date.

Transactions between non-controlling shareholders and the group

Sales and purchases of share interests and equity contributions not resulting in Hydro gaining or losing control of a subsidiary are reported as equity transactions in accordance with IFRS 10. No gain, loss or change of recognized assets, liabilities or goodwill is recognized as result of such transactions.

Investments in associates and joint ventures

An associate is an equity investment in which Hydro has the ability to exercise significant influence, which is the power to participate in the financial and operating policy decisions of the entity. Significant influence is assumed to exist when Hydro owns between 20 and 50 percent of the voting rights unless other terms and conditions affect Hydro's influence.

A joint arrangement is an entity, asset or operation that is subject to contractually established joint control. Special voting rights may extend control beyond what is conveyed through the owners' proportional ownership interest. Such rights may take the form of a specified number of board representatives, the right of refusal for important decisions, or the requirement of a qualified majority for important decisions which effectively results in joint control with the specific ownership situation. Joint ventures are joint arrangement which represents a residual interest in the arrangement rather than an interest in assets and responsibility for liabilities.

Hydro accounts for investments in associates and participation in joint ventures using the equity method. This involves recognizing Hydro's interest based on its proportional share of the entity's equity, including any excess values and goodwill. Hydro recognizes its share of net income, including depreciation and amortization of excess values and any impairment losses, in Share of the profit (loss) in equity accounted investments. Other comprehensive income derived from associates and joint ventures is included in Hydro's Other comprehensive income. Hydro's proportional share of unrealized profits resulting from transactions with associates and joint ventures, including transfer of businesses, is eliminated. Accounting policies used by associates and joint ventures may differ from the accounting policies adopted by Hydro. Differences in recognition or measurement are adjusted for prior to equity accounting.

Investments in associates and joint ventures are tested for impairment when there are indications of a possible loss in value. An impairment loss is recognized if the recoverable amount, estimated as the higher of fair value less cost of disposal or value in use, is below Hydro's carrying value. Impairment losses are reversed if circumstances change and the impairment situation is no longer deemed to exist.

Investments in joint operations and jointly owned assets

Joint operations are arrangements under contractually joint control where the joint operators have an interest in the assets; or benefits from the service potential of the assets; as well as have a direct obligation for the liabilities of the joint arrangement. Joint operations can result from the legal form of the arrangement or other facts and circumstances resulting in an interest in the service potential of the asset and obligation for liabilities. Jointly owned assets are arrangements where Hydro and the other partners have a direct ownership in specifically identified assets, but where joint control is not established. Hydro recognizes its share of assets, liabilities, revenues, if any, and expenses of joint operations and jointly owned assets on a line-by-line basis in the group financial statements.

Assets held for sale and Income from discontinued operations

Assets held for sale are reported separately in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, provided that the sale is highly probable, which includes the criteria that management is committed to the sale, and that the sale will be completed within one year. Assets held for sale are not depreciated, but are measured at the lower of carrying value and the fair value less costs to sell for the asset group. Assets are not reclassified in prior period balance sheets. Immaterial disposal groups are not reclassified.

A discontinued operation is a component of Hydro that is held for sale or has been disposed of. A discontinued operation is a separate major line of business or geographical area of operations. Related cash flows, results of operations and gain or loss from disposal are reported separately as Income (loss) from discontinued operations.

Assets held for sale, liabilities in disposal groups and income and expense from discontinued operations are excluded from specifications presented in the notes unless otherwise stated.

Revenue recognition

Revenue from sales of products, including products sold in international commodity markets, is recognized upon transfer of ownership, which generally occurs on delivery. To the extent a transaction consists of multiple elements, the transaction is analyzed into the separately identifiable components for revenue recognition. Products are generally produced based on customer order. Some standard products, such as standard aluminium ingot and certain products for the building systems product lines, are produced independently of customer orders. For multiple delivery contracts, revenue is allocated to deliveries in line with contract terms, normally either fixed price per unit or a combination of fixed elements and price references to observable market prices at either pricing date or delivery date. The price is usually fixed prior to, or at, delivery, although some contracts may refer to observable market prices in a period including transactions after delivery, such as the delivery month. Sales terms providing transportation and related services for sold goods after transfer of ownership to the customer (CIF and similar incoterms) are considered one, combined, delivery to the customer. Revenue, including the service element, is recognized at transfer of ownership of the goods, and remaining costs accrued for. Any rebates or incentive allowances are deferred and recognized in income upon the realization or at the closing of the rebate period. In arrangements where Hydro acts as an agent, such as commission sales, the net commission fee is recognized as revenue.

Margins related to the trading of derivative commodity instruments, including instruments used for risk management purposes, purchase or delivery of physical commodities on a commodity exchange, and physical commodity purchases and sales agreed in combination with a single counterpart, are presented on a net basis in the income statement with trading margins included in revenues.

Government grants

Government grants are recognized in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. Grants are recognized when there is a reasonable assurance that Hydro will comply with relevant conditions and the grants will be received. Government grants are deferred in other non-current liabilities until the associated activity is performed or expenses recognized. Investment grants are recognized over the period the associated asset is depreciated. All government grants are recognized in Other income, net. Investment grants are included in Investing activities in the statement of cash flows.

Other income, net

Transactions resulting in income from activities other than normal production and sales operations are classified as Other income, net. This includes gains and losses resulting from the sale or disposal of PP&E, investments in subsidiaries, associates or joint ventures as well as government grants, insurance compensation, rental revenue and revenue from utilities.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling costs. Inventory cost includes direct materials, direct labor and a portion of production overhead (manufactured goods) or the purchase price of the inventory. Abnormal amounts of idle facility expense, freight, handling costs, and wasted materials are recognized as expense in the current period. Inventory write-downs to net realizable value occurs when the cost of the inventory is not recoverable, and is reversed in later periods if there is clear evidence of an increase in the net realizable value.

Property, plant and equipment

Property, plant and equipment (PP&E) is recognized at acquisition cost. The carrying value of PP&E is comprised of the historical cost less accumulated depreciation and any accumulated impairment losses. The carrying value also includes the estimated value of the asset retirement obligation upon initial recognition of the liability. Hydro uses the cost model for PP&E and investment properties.

Capitalized maintenance

Expenditures for maintenance and repairs applicable to production facilities are capitalized in accordance with IAS 16 Property, Plant and Equipment when such costs are incurred on a scheduled basis with a time interval of greater than one year. Expenditures that regularly occur at shorter intervals are expensed as incurred. Major replacements and renewals are capitalized and any assets replaced are retired.

Stripping cost

Stripping costs incurred during the mining production phase are allocated between cost of inventory produced and the existing mine asset. Stripping costs are allocated as a component of the mine asset in the event they represent significantly improved access to ore. Stripping costs include such activities as removal of vegetation as well as digging the actual pit for mining the ore.

Capitalized interest

Hydro capitalizes borrowing costs on qualifying assets in accordance with IAS 23 Borrowing Costs. Currency gains or losses related to Hydro's foreign currency denominated borrowings are not capitalized.

Leased assets

Leases which transfer to Hydro substantially all the risks and benefits incidental to ownership of the leased item are identified using the guidance in IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a lease. Such arrangements are capitalized as finance leases and included under Property, plant and equipment at the fair value of the leased asset, or, if lower, the present value of the minimum lease payments as of the later of date of inception of the lease or getting access to the services of the asset. The assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. The liability is included in Long-term debt and amortized by the amount of the lease payment less the effective interest expense. All other leases are classified as operating leases with lease payments recognized as an expense over the term of the lease.

Asset retirement obligations

Hydro recognizes liabilities for the estimated fair value of asset retirement obligations (ARO) relating to assets where such obligations exists, in the period incurred in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Fair value is estimated as the present value of costs relating to dismantlement or removal of buildings or other assets, and/or the restoration or rehabilitation of industrial or mining sites. The liability is recognized when an asset is constructed and ready for use or when the obligation is incurred if imposed at a later date. Related asset retirement costs are capitalized and depreciated over the useful life of the asset. Accretion costs are recognized for the change in the present value of the liability and classified as part of Financial expense. Liabilities that are conditional on a future event (e.g. the timing or method of settlement) are recognized when the value of the liability can be reasonably estimated.

Intangible assets

Intangible assets acquired individually or as a group are recognized at fair value when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred.

Emission rights

Government granted and purchased CO₂ emission allowances expected to be used towards Hydro's own emissions are recognized as intangible assets at nominal value (cost). The amounts are not amortized but are tested for impairment at least annually. Actual CO₂ emissions which exceed the level covered by emission rights are recognized as a liability. Sale of emission rights are recognized at the time of sale at the transaction price. CO₂ emission allowances purchased for trading are measured and classified as inventory.

Research and development

Research expenditures are expensed as incurred. Development costs are capitalized as intangible assets at cost in accordance with IAS 38 Intangible Assets when the recognition criteria are met, including probable future economic benefit and that the cost can be measured reliably.

Exploration cost

Exploration cost for mineral resources are expensed as incurred. Costs related to acquired exploration rights are allocated to the relevant areas and capitalized. An area represents a unit that may be utilized based on shared infrastructure and may include several licenses. Exploration rights are transferred to mine development cost when development starts. Exploration rights related to undeveloped areas remain on the balance sheet as intangible assets (mineral rights) until a development is decided or a decision not to develop the area is made.

Depreciation and amortization

Depreciation and amortization expenses are measured on a straight-line basis over the estimated useful life of the asset, commencing when the asset is ready for its intended use. Mine property and development costs in extractive activities are depreciated using the unit-of-production method, using proved and probable reserves. Tangible and intangible assets with an indefinite useful life are not depreciated. Estimated useful life by category is as follows:

- Machinery and equipment, initial investment 4-30 years, for power plants up to 75 years
- Machinery and equipment, capitalized maintenance 1-15 years
- Buildings 20-50 years
- Intangible assets with finite lives 3-10 years, for rights related to hydroelectric power production up to 50 years

A component of an item of property, plant and equipment with a significantly differing useful life and a cost that is significant in relation to the item is depreciated separately. At each financial year-end Hydro reviews the residual value and useful life of its assets, with any estimate changes accounted for prospectively over the remaining useful life of the asset.

Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with IAS 36 Impairment of Assets. Exploration cost for undeveloped mining areas are assessed for impairment under IFRS 6 Exploration for and Evaluation of Mineral Resources. Intangible assets with indefinite useful life are tested for impairment at least annually.

Provisions

Provisions are recognized when Hydro has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that Hydro will be required to settle the obligation, and a reliable estimate can be made of the amount, taking into account the risks and uncertainties. The provision is measured as the present value of the cash flows estimated to settle the obligation. Uncertain outcomes are measured as the expected value of reasonably possible outcomes. See also the accounting policy discussion for Asset retirement obligations.

Exit and disposal costs

Hydro recognizes a provision in the amount of the direct costs associated with an exit and/or disposal activity when a formal commitment to a detailed exit plan is made and communicated to those affected. A provision for termination benefits to employees is recognized as of the date of employee notification. Costs related to such activities are classified as restructuring costs if the exit or disposal materially change the scope of Hydro's business.

Contingent liabilities and assets

A contingent liability is a possible obligation that arises from a past event, with the resolution of the contingency dependent on uncertain future events, or a present obligation where no outflow is probable. Major contingent liabilities are disclosed in the financial statements unless the possibility of an outflow of economic resources is remote. Contingent assets are not recognized in the financial statements.

Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency of the transacting entity by applying the rate of exchange as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. Currency gains or losses are included in Financial expense.

Foreign currency translation

For consolidation purposes, the financial statements of subsidiaries with a functional currency other than Norwegian kroner (NOK) are translated into NOK. Assets and liabilities, including investment in associates, joint ventures and goodwill, are translated using the rate of exchange as of the balance sheet date. Income, expenses and cash flows are translated using the average exchange rate for the reported period. Goodwill is recognized in the predominant functional currencies in the acquired businesses. Translation adjustments are recognized in Other comprehensive income and accumulated in Currency translation differences in Other components of equity. On disposal of such subsidiary, joint venture or associate, the cumulative translation adjustment of the disposed entity is recognized in the income statement as part of the gain or loss on disposal.

Financial assets

Financial assets represent a contractual right by Hydro to receive cash or another financial asset in the future. Financial assets include financial derivatives and commodity derivative contracts, receivables and equity interests, as well as financial instruments used for cash-flow hedges. Financial assets are derecognized when the rights to receive cash from the asset have expired or when Hydro has transferred its rights to receive cash flows and has either transferred substantially all of the risks and rewards of the asset or has transferred control of the asset. Financial assets are measured at amortized cost unless another measurement basis is described below.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet includes cash, bank deposits and all other monetary instruments with a maturity of less than three months from the date of acquisition, and are measured at nominal value.

Short-term investments

Short-term investments include bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase. Short-term investments also includes Hydro's current portfolio of equity and debt securities which are considered trading securities. Such instruments are measured at fair value with the resulting unrealized holding gains and losses included in Financial income. Investment income is recognized when the right to receive cash flows has been established.

Trade receivable

Trade receivable are initially recognized at fair value, subsequently accounted for at amortized cost and are reviewed for impairment on an ongoing basis. Individual accounts are assessed for impairment taking into consideration indicators of financial difficulty and management assessment. Discounting generally does not have a material effect on accounts receivable, however, in special cases discounting may be applied.

Other non-current assets

Other non-current assets include Hydro's portfolio of equity securities that are not consolidated or accounted for using the equity method. The portfolio is classified as available-for-sale securities and is measured at fair value with changes in fair value, net of tax, recognized in Other comprehensive income. Investment income is recognized when the right to cash flows has been established. Fair value of the investment is measured under IFRS 13 Fair Value Measurement. When the estimated fair value of the investment is below Hydro's cost, and the difference is significant or prolonged, the impairment is recognized in the income statement. Any accumulated reduction in fair value previously recognized in Other comprehensive income is reclassified to the income statement.

Financial liabilities

Financial liabilities represent a contractual obligation by Hydro to deliver cash in the future, and are classified as either short or long-term. Financial liabilities include financial derivatives, commodity derivative contracts and other financial liabilities as well as financial instruments used for cash-flow hedges. Financial liabilities, with the exception of derivatives, are initially recognized at fair value including transaction costs directly attributable to the transaction and are subsequently measured at amortized cost. Financial liabilities are derecognized when the obligation is discharged through payment or when Hydro is legally released from the primary responsibility for the liability.

Derivative instruments

Derivative instruments are marked-to-market with the resulting gain or loss reflected in the income statement, except when the instruments meet the criteria for cash flow hedge accounting and are designated as hedge instruments. Derivatives, including hedging instruments and embedded derivatives with expected cash flows within twelve months from the balance sheet date, or held solely for trading, are classified as short-term. Instruments with expected cash flows more than 12 months after the balance sheet date are classified as short and long-term based on the timing of the estimated cash flows.

Derivative contracts are presented gross on the balance sheet unless contract terms include the possibility to settle the contracts on a net basis and Hydro has the intention and ability to do so. The ability to settle net is conditional on simultaneous offsetting cash-flows.

Physical commodity contracts are evaluated on a portfolio basis. If a portfolio of contracts contains contracts of a similar nature that are settled net in cash, or the underlying products are not intended for own use, the entire portfolio of contracts is recognized at fair value and classified as derivatives. Physical commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of the commodity in accordance with Hydro's expected purchase, sale or usage requirements (own use) are not accounted for at fair value. Commodity purchase contracts are generally considered to be the primary source for usage requirements. Hydro's own production of such commodities, for instance electricity, alumina and primary aluminium, is considered to be available for use or sale at Hydro's discretion unless relevant concessions contains restrictions for use.

Derivative commodity instruments are marked-to-market with their fair value recorded in the balance sheet as either assets or liabilities. Adjustments for changes in the fair value of the instruments are reflected in revenue and/or cost. Forward currency contracts and currency options are recognized in the balance sheet and measured at fair value at each balance sheet date with the resulting gain or loss recorded in Financial expense. Interest income and expense relating to swaps are netted and recognized as income or expense over the life of the contract.

Hedge accounting is applied when specific hedge criteria are met, including documentation of the hedge relationship. The changes in fair value of the hedging instruments are offset in part or in full by the corresponding changes in the fair value or cash flows of the underlying hedged exposures. Gains and losses on cash flow hedging instruments are recognized in Other comprehensive income and deferred in the Hedging reserve in Other components of equity until the underlying transaction is recognized in the income statement. Deferred gains and losses relating to forecasted hedged transactions that are no longer expected to occur are immediately recognized in the income statement. Any amounts resulting from hedge ineffectiveness are recognized in the current period's income statement.

An embedded derivative is accounted for as a separate financial instrument, provided that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, a separate instrument with the same terms

as the embedded derivative would meet the definition of a derivative, and the host contract is not accounted for at fair value. Embedded derivatives are classified both in the income statement and on the balance sheet based on the risks in the derivatives' underlying.

Income taxes, current and deferred

Taxes payable is based on taxable profit for the year which excludes items of income or expense that are taxable or deductible in other years. Taxable profit also excludes items that are never taxable or deductible. Hydro's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the balance sheet date.

Deferred income tax expense is calculated using the liability method in accordance with IAS 12 Income Taxes. Deferred tax assets and liabilities are classified as non-current in the balance sheet and are measured based on the difference between the carrying value of assets and liabilities for financial reporting and their tax basis when such differences are considered temporary in nature. Temporary differences related to intercompany profits are deferred using the buyer's tax rate. Deferred tax assets are reviewed for recoverability every balance sheet date, and the amount probable of recovery is recognized.

Deferred income tax expense represents the change in deferred tax asset and liability balances during the year, except for the deferred tax related to items recognized in Other comprehensive income or resulting from a business combination or disposal. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective or are substantively enacted. Uncertain tax positions are recognized in the financial statements based on management's expectations.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are not provided on undistributed earnings of subsidiaries when the timing of the reversal of this temporary difference is controlled by Hydro and is not expected to happen in the foreseeable future. This is applicable for the majority of Hydro's subsidiaries.

Share-based compensation

Hydro accounts for share-based compensation in accordance with IFRS 2 Share-based Payment. Share-based compensation expense is measured at fair value over the service period and includes social security taxes that will be paid by Hydro at the settlement date. All changes in fair value are recognized in the income statement.

Employee benefits and post-employment benefits

Payments to employees, such as wages, salaries, social security contributions, paid annual leave, as well as bonus agreements are accrued in the period in which the associated services are rendered by the employee.

Post-employment benefits are recognized in accordance with IAS 19 Employee Benefits. The cost of providing pension benefits under a defined benefit plan is determined separately for each plan using the projected unit credit method. Past service costs are recognized immediately in the income statement. The interest component of the periodic cost is included in Financial expense. Remeasurement gains and losses are recognized in Other comprehensive income.

Contributions to defined contribution plans are recognized in the income statement in the period in which they accrue. Multi-employer defined benefit plans where available information is insufficient to use defined benefit accounting are accounted for as if the plan were a defined contribution plan.

Income statements and statements of comprehensive income

Hydro has elected to present a separate income statement and a separate statement of comprehensive income, rather than a combined statement. Further, Hydro has elected to present an analysis of expenses based on their nature as a common analysis of expenses through Hydro's value chain. Hydro has elected to present a sub-total Earnings before financial items and tax (EBIT). This measure is also used as the main segment profit measure. The share of the profit (loss) in equity accounted investments is included in this sub-total because the majority of such investments are operationally integrated with Hydro's businesses. Results from such investments are managed as part of Hydro's operating activities with significant transactions

between the majority of these investments and Hydro. Return on other equity investments, such as available-for-sale shares, is not as closely related to the business activities in Hydro, and classification as financial income thus better reflects the way such investments are managed.

Statements of cash flows

Hydro uses the indirect method to present cash flows from operating activities. Interest and dividends received as well as interest paid is included in cash flows from operating activities. Dividends paid is included in cash flows from financing activities.

Segment information

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments.

Note 3 - Changes in accounting principles and new pronouncements

New pronouncements

As of the date of authorization of these financial statements, the following standards relevant to Hydro have been issued by the IASB.

- IFRS 9 Financial Instruments - Classification and Measurement; effective date January 1, 2018.
- IFRS 15 Revenue from Contracts with Customers; effective date January 1, 2018.
- IFRS 16 Leases; effective date January 1, 2019.

As of the date of issue of Hydro's financial statements, all of these standards were endorsed by the EU.

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

Hydro has decided to implement IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognized directly to equity at implementation, i.e. January 1, 2018. IFRS 15 requires limited changes to identification of performance obligations and timing of recognition of revenue.

The most important change relates to revenue from custom-made products where contract clauses and/or specific designs results in a conclusion that the products have no alternative use for Hydro. Combined with contracts securing Hydro an unconditional right to payment for orders placed, revenue from such contracts are to be recognized over time according to the completion effort rather than at actual delivery of products to customers. As firm orders are placed and products produced close to delivery, the amount of revenue and related margin to be recognized earlier under IFRS 15 compared to previous standards are limited. Such contracts are mainly held in the newly acquired Extruded Solutions businesses. Review of contracts to confirm which of those that include an enforceable right to payment is still not completed. As of the end of 2017, unrecognized revenue that would be recognized earlier under IFRS 15 has been estimated to an amount of about NOK 1.3

billion, with a corresponding margin of about NOK 125 million, should we conclude that all contracts for customer specific products include an enforceable right to payment. The transitional effect will be recognized in the opening balance as of January 1, 2018, with no adjustment to comparable figures.

Another transaction type affected is the freight component included in sales of goods on incoterms CIF/CIP or similar terms. The freight component in these sales transactions were previously considered integral in the sale of goods, and recognized when risk and rewards of the goods were transferred to the customers. The freight component will, from January 1, 2018, be deemed a separate performance obligation, and recognized as the service is performed. As a result of limited goods under transportation as of year-end, the revenue recognized earlier under IAS 18 compared to IFRS 15 as of December 31, 2017 was less than NOK 10 million, and the amount of related margin was less than NOK 2 million including the impact from the joint venture Qatalum, accounted for under the equity method. As such, no transition effect for the freight component will be recognized as of January 1, 2018.

In addition, Hydro has one unit delivering equipment for casting, both to internal and external customers, where revenue has been recognized over time under IAS 11 Revenue from construction contracts. The revenue from the majority of such contracts is deemed to continue to be recognized over time, however, some contract types will be recognized at a point in time, when the customer receives control with the goods produced, under IFRS 15. Recognized revenue which under IFRS 15 should be recognized in a later period amounted to about NOK 11 million as of December 31, 2017. The corresponding margin amounted to NOK 3 million, which will be recognized in later periods under IFRS 15. The transitional effect will be recognized in the opening balance as of January 1, 2018, with no adjustment to comparable figures.

The transition effect related to implementing IFRS 15 is estimated to an increase in equity of NOK 95 million should we conclude that all contracts for customer specific products include an enforceable right to payment.

IFRS 16 Leases

Hydro has decided to implement IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized at the date of implementation, i.e. January 1, 2019. Further, Hydro will utilize the practical expedients available for measuring lease arrangements at transition and to utilize the practical expedients allowing to exclude leases with a duration of less than 12 months or covering assets of a low value (small asset leases) from lease accounting.

Preliminary assessment of IFRS 16 indicates somewhat increased recognized fixed assets and debt, with a corresponding shift of certain amounts from Other operating expenses partly to depreciation and amortization expense, partly to interest expense. The amounts of change will depend on Hydro's portfolio of leasing contracts at the time of transition. The adjustment included in Hydro's capital management measure Adjusted debt described in Note 38 Capital management, is indicative of the magnitude of increase in fixed assets and liabilities, however, as the measurement in this key figure is not the same as required in IFRS 16, and thus the recognized assets and liabilities might differ significantly from the adjustment amount.

Note 4 - Measurement of fair value

Measurement of fair value

Hydro measures certain assets and liabilities at fair value for the purpose of recognition or disclosure, see note 2 Significant accounting policies. Recurring fair value measurement is used primarily for financial instruments. Non-recurring fair value measurement is used for transactions, such as business combinations, divestments with non-cash consideration and certain other non-routine transactions. Fair value is estimated using inputs which are to varying degrees objectively observable. Certain items are valued on the basis of quoted prices in active markets for identical assets or liabilities, others are valued on the basis of inputs that are derived from observable prices, while certain positions are valued on the basis of judgmental assumptions that are to a limited degree or not at all based on observable market data.

Financial instruments

The estimated fair value of Hydro's financial instruments is based on market prices and valuation techniques. Valuations are made with the objective to include relevant factors that market participants would consider in setting a price, and to apply accepted economic and financial methodologies for the pricing of financial instruments. References for less active markets are

carefully reviewed to establish relevant and comparable data. Extrapolations and other accepted valuation techniques are employed in periods with few or no transactions, such as for long-term commodity contracts in markets with few observations beyond the short or mid term period.

Hydro's estimated credit spread for similar liabilities is used when determining the fair value of financial instruments where Hydro is net liable. Hydro determines the appropriate discount factor and credit spread for financial assets based on both an individual and portfolio assessment.

Equity securities

Fair value for listed shares is based on quoted market prices as of the balance sheet date. Fair value for unlisted shares is based on commonly accepted valuation techniques utilizing significant unobservable data, primarily cash flow based models. To the extent there are transactions in such shares, the transaction price is assessed and to the extent comparable to rights embodied in the investment held by Hydro, used for reference. For investments where share holdings are associated with offtake rights and/or obligations or other specific clauses, those rights and obligations are included in the valuation of the equity securities.

Debt instruments

Fair value for listed instruments is based on quoted market prices as of the balance sheet date. Fair value for other debt instruments is estimated primarily through cash flow models using contractual cash flow where relevant, and discount rates reflecting the perceived credit risk and other relevant risks associated with the instrument.

Derivatives

Fair value of financial derivatives with a currency or interest rate as underlying is estimated as the present value of future cash flows, calculated by reference to quoted swap price curves and exchange rates as of the balance sheet date. For derivatives covering a period beyond the liquid period of price curves, the curves are extrapolated using unobservable data.

Fair value of commodity derivatives is measured as the present value of future cash flows, calculated using forward curves and exchange rates as of the balance sheet date. Estimates from brokers and extrapolation techniques are applied for non-quoted periods to achieve the most relevant forward curve. In addition, when deemed appropriate, correlation techniques between commodities are applied. Options are revalued using option pricing models and credit spreads are applied where deemed to be significant. Markets are assessed to determine whether they are active for the relevant instruments. Currency and interest markets are considered liquid for the periods used for price references, and thus applied unadjusted. For aluminium contracts priced to observations at the London Metal Exchange (LME), liquidity is considered good for the first few years, with fewer transactions for longer durations. For electricity contracts priced to the electricity exchange Nasdaq Electricity Nordic, liquidity is considered good for the first two to three years. For longer durations there are fewer transactions and higher uncertainty. Similar assessment is made for other markets used for price references. For less liquid periods, adjustments to remove outliers and extrapolation techniques are applied.

Embedded derivatives

Hydro measures embedded derivatives that are separated from the host contract by comparing the forward curve at contract inception to the forward curve as of the balance sheet date. Changes in the present value of the cash flows related to the embedded derivative are recognized in the balance sheet and in the income statement. Forward curves are established as described above under Derivatives.

Note 5 - Critical accounting judgment and key sources of estimation uncertainty

The application of accounting policies requires that management makes estimates and judgments in determining certain revenues, expenses, assets, and liabilities. The following accounting policies represent areas that are considered more critical, involving a higher degree of judgment and complexity.

Impairment of non-current assets

IAS 36 requires that Hydro assess conditions that could cause an asset or a Cash Generating Unit (CGU) to become impaired and to test recoverability of potentially impaired assets. These conditions include internal and external factors such as Hydro's market capitalization, significant changes in Hydro's planned use of the assets or a significant adverse change in the expected prices, sales volumes or raw material cost. The identification of CGUs involves judgment, including assessment of where active markets exist, and the level of interdependency of cash inflows. For Hydro, the CGU is either the individual plant, a group of

plants that forms an integrated value chain where no independent prices for the intermediate products exist, a group of plants that are combined and managed to serve a common market, or a group of assets where circumstances otherwise indicate significant interdependencies.

In accordance with IAS 36, goodwill and certain intangible assets are reviewed at least annually for impairment. If a loss in value is indicated, the recoverable amount is estimated as the higher of the CGU's fair value less cost of disposal, or its value in use. Directly observable market prices rarely exist for our assets, however, fair value may be estimated based on recent transactions on comparable assets, internal models used by Hydro for transactions involving the same type of assets or other relevant information. Calculation of value in use is a discounted cash flow calculation based on continued use of the assets in its present condition, excluding potential exploitation of improvement or expansion potential.

Determination of the recoverable amount involves management estimates on highly uncertain matters, such as commodity prices and their impact on markets and prices for upgraded products, development in demand, inflation, operating expenses and tax and legal systems. We use internal business plans, quoted market prices and our best estimate of long-term development in commodity prices, currency rates, discount rates and other relevant information. A detailed forecast is developed for a period of three to five years with projections thereafter. Hydro does not include a general growth factor to volumes for the purpose of impairment tests, however, cash flows are generally increased by expected inflation and, where market conditions are depressed, we consider whether full or partial market recovery towards previously observed volumes is justified. Estimated cash flows are discounted with a nominal risk adjusted discount rate. For further information about impairment tests, see note 19 Impairment of non-current assets.

Business combinations

In a business combination, consideration, assets and liabilities are recognized at estimated fair value, and any excess purchase price included in goodwill. Where Hydro had an existing ownership interest in the acquiree, that interest is also reassessed to determine its acquisition date estimated fair value, resulting in the acquisition date gain or loss. In the businesses Hydro operates, fair values of individual assets and liabilities are normally not readily observable in active markets. Estimation of fair values requires the use of valuation models for acquired assets and liabilities as well as ownership interests. Such valuations are subject to numerous assumptions and thus uncertain. The quality of fair value estimates may impact assessment of possible impairment of assets and/or goodwill in future periods.

Contingent assets and liabilities, uncertain assets and liabilities

Liabilities that are uncertain in timing or amount are recognized when a liability arises from a past event and an outflow of cash or other resources is probable and can be reasonably estimated. Contingent liabilities are possible obligations where a future event will determine whether Hydro will be required to make a payment to settle the liability, or where the size of the payment cannot be determined reliably. Material contingent liabilities are disclosed unless a future payment is considered remote. Evaluation of uncertain liabilities and contingent liabilities and assets requires judgment and assumptions regarding the probability of realization and the timing and amount, or range of amounts, that may ultimately be incurred. Such estimates may vary from the ultimate outcome as a result of differing interpretations of laws and facts.

Environmental liabilities and asset retirement obligations

Hydro's industrial and mining activities are subject to a wide range of environmental laws and regulations, including end-of-life remediation regulations. The extent of site and off-site contamination, the remediation methods and requirements that relevant environmental authorities may impose, are uncertain. The long-term use of sites, with increasing awareness of effects of contamination in society, a generally lower acceptance of contamination in communities over time, as well as changes in remediation methods and requirements, contributes to the uncertainty in assessing and measuring such obligations. Remediation and closure activities expected to be conducted far into the future are less accurately measured than near-term planned activities. Consequently, there is significant uncertainty inherent in the estimates. A discussion of Hydro's major provision for environmental and other liabilities is included in note 34 Provisions. Significant contingent obligations are discussed in note 35 Contingent liabilities and contingent assets.

Taxes

Hydro calculates income tax expense based on reported income in the different legal entities. Deferred income tax expense is calculated based on the differences between the carrying value of assets and liabilities for financial reporting purposes and their respective tax basis that are considered temporary in nature. Valuation of deferred tax assets is dependent on management's assessment of future recoverability of the deferred benefit. Expected recoverability may result from expected taxable income in the future, planned transactions or planned tax optimizing measures, all of which may be uncertain. Economic conditions may change and lead to a different conclusion regarding recoverability. Tax authorities in different jurisdictions may challenge Hydro's calculation of taxes payable from prior periods. Such processes may lead to changes to prior periods' taxable income, resulting in changes to income tax expense in the period of change.

Indirect tax regimes are complex in many jurisdictions and cross-border. Basis for such taxes may differ from actual transaction prices. In some jurisdictions, including Brazil, significant credit amounts are generated for use against future indirect and/or income tax payments. The value of such credits depend on future generation of taxes. Economic conditions and tax regulations may change and lead to a different conclusion regarding recoverability. Tax authorities may challenge Hydro's calculation of taxes and credits from prior periods. Such processes may lead to changes to prior periods' operating or financial expenses to be recognized in the period of change.

Financial instruments

Certain commodity contracts are deemed to be financial instruments under IAS 39 or to contain embedded derivatives which are required to be recognized at fair value, with subsequent changes in fair value impacting the income statement. Determining whether contracts qualify as financial instruments at fair value involves evaluation of markets, Hydro's use of those instruments and historic or planned use of physically delivered products under such contracts. Determining whether embedded derivatives are required to be separated and accounted for at fair value involves assessing price correlations and normal market pricing mechanisms for relevant products and market places. Where no directly observable market prices exist, fair value is estimated through valuation models which rely on internal assumptions as well as observable market information such as forward curves, yield curves and interest rates. Market stability impacts the reliability of observed prices and other market information, and consequently, the extent of judgment necessary to estimate appropriate market prices for valuation purposes. Volatility also impacts the magnitude of changes in estimated fair value, which can be substantial, in particular on long-term contracts. Historically, financial and commodity markets have been highly volatile.

Employee retirement plans

Hydro provides both defined benefit employee retirement plans and defined contribution plans. A significant but decreasing share is defined benefit plans. Measurement of pension cost and obligations under such plans require numerous assumptions and estimates that can have a significant impact on the recognized pension cost and obligation, such as discount rates, turnover rate and mortality, as well as future pension increases and salary levels.

Note 6 - Significant subsidiaries and changes to the consolidated group

Acquisition of Sapa

On July 10, 2017, Hydro entered into a contract to acquire 50 percent of the shares in Sapa AS, which was a joint venture owned 50 percent by Hydro and 50 percent by Orkla, a listed company in Norway. Following completion of the transaction on October 2, 2017, Hydro owns 100 percent of the parent company Sapa AS, which is now renamed Hydro Extruded Solutions AS. Hydro's acquisition of Sapa AS in October 2017 resulted in a significant increase in the number of subsidiaries and plants.

The acquisition of Orkla's ownership interest in Sapa confirms Hydro's strategy of being integrated and the combination is intended to make Hydro fully integrated across the value chain and markets. Hydro will increase its strength in technology, research and development, innovation and product development, and the service offering to the customers.

Hydro has paid a cash consideration of NOK 11,860 million for the 50 percent shares acquired on October 2, with certain post-closing adjustments made during December resulting in a payment of NOK 46 million for the shares in January 2018. The pricing is based on an agreed enterprise value of NOK 27 billion for 100 percent of Sapa on a cash and debt free basis, adjusted for certain items such as level of working capital and investments made during 2017. The fair value of Hydro's previously held 50 percent interest in Sapa is measured, using significant unobservable (level3) input, at NOK 8,906 million, resulting in a total value of Sapa's net assets of NOK 20,813 million. A remeasurement gain of NOK 2,171 million, including certain items previously recognized in Other Comprehensive Income of NOK 751 million, was recognized in Other income, net, in 2017.

Acquisition related costs incurred during 2017 were approximately NOK 35 million, included in operating costs.

Hydro has started the process of identifying the fair value of assets acquired and liabilities assumed. This process depends on access to detailed information of Sapa's businesses, and many of these procedures could thus not start before Hydro obtained control with Sapa at completion of the transaction. The estimated fair value of assets and liabilities of Sapa included in the table below are the current estimates based on the valuation of the specific assets and liabilities, which is not yet completed. The valuation of property, plant and equipment and intangible assets is considered good estimates, however, certain quality assurance procedures have not yet been completed.

Sapa had uncertain and contingent liabilities mainly related to historic environmental issues on sites held and sites resold to others prior to Hydro's acquisition, as well as certain tax exposures. Investigation of the magnitude of such uncertain and contingent liabilities is not yet completed. Further, Sapa Profiles Inc, a US subsidiary of Sapa, is under investigation by the United States Department of Justice. The outcome of this investigation is not known, and the estimate included in the summary of assets and liabilities below may thus be changed. As no claim has been specified towards the company, a range of possible outcomes has not been established. Hydro will be entitled to reimbursement from the seller for 50 percent of the amount to be finally paid related to this case, and indemnification for certain environmental costs. The preliminary estimate of contingent obligations in the acquired business included in the table below amounts to about NOK 850 million and a related indemnity asset receivable from the seller of about NOK 130 million.

A preliminary estimate of goodwill in the transaction amounts to NOK 4,119 million, including goodwill recognized in Sapa prior to the acquisition, and is reflected in the preliminary purchase price allocation. Significant contributors to the estimated goodwill are synergies in the transaction, the assembled and skilled work force in the organization as well as the time value of deferred tax liabilities recognized at nominal amounts as required by IFRS.

Any adjustments in later period will impact deferred tax and goodwill in addition to the item valued. Depreciation and amortization of assets may be impacted should the value of property, plant and equipment or intangible assets, or the remaining useful life of such assets, be reconsidered in later periods. The final fair value assessment is required to be completed within 12 months from completion of the transaction, and may differ from these estimates.

Acquired assets and liabilities

NOK million	
Cash and cash equivalents	892
Accounts receivables	8 775
Inventories	6 469
Other current assets	233
Total current assets	16 369
Property, plant and equipment	14 052
Intangible assets, including goodwill	7 016
Other non-current assets	1 969
Total non-current assets	23 037
Total assets acquired	39 405
Bank loans and other interest-bearing short-term debt	3 556
Other current liabilities	10 081
Total current liabilities	13 637
Long-term debt	64
Deferred tax liabilities	2 486
Other non-current liabilities	2 365
Total non-current liabilities	4 915
Net assets acquired	20 853
Non-controlling interests	40
Net assets acquired by Hydro	20 813

The results from January to September for Sapa are reported as result from the 50 percent owned joint venture accounted for under the equity method, no results from the acquired businesses were included in Hydro's consolidated income statement as results from the Group's controlled business as of September 30, 2017. The result for the fourth quarter is included in the consolidated income statement, including certain effects of the acquisition, such as the holding gain on the previously held shares, depreciation and amortization of fair value adjustments related to long-lived assets, and the expensed mark-up on inventory values. The acquired business is reported as a separate segment, Extruded Solutions in the period after the acquisition. Revenue in the acquired business for the fourth quarter of 2017 amounted to NOK 14,153 million. Earnings before financial items and tax (EBIT) from the acquired business, including the expensed mark-up on inventory values amounted to a loss of NOK 449 million for the fourth quarter. Excluding the higher cost of goods sold, EBIT amounted to a positive NOK 258 million.

The following information represents pro forma financial information as if the acquisition was completed as of the beginning of 2017. The pro forma financial information is based on Hydro's financial statements as of December 31, 2017, and Sapa's management reporting as of September 30, 2017. This pro forma financial information is based on the transaction completed by Hydro and Orkla as of October 2, 2017. Terms of the transaction may have been different had the acquisition been completed at an earlier time. Items directly related to the transaction as such, including the holding gain on previously held shares and the expensed mark-up on inventory values as of the transaction date has been excluded from the pro forma information as those items are not considered illustrative for the result of the combined businesses on an ongoing basis. Pro forma information has been prepared for information purposes only, and is not intended to indicate what the results of operations would have been if the transaction had occurred at the beginning of 2017.

Pro forma condensed combined financial information Hydro

NOK million	2017
Revenue	148 920
Earnings before financial items and tax (EBIT)	11 927
Net income	8 090
Net income (loss) attributable to non-controlling interests	402
Net income (loss) attributable to Hydro shareholders	7 687

Hydro issued an information memorandum dated July 31, 2017 describing the acquisition. The document contains more detailed information about the transaction, and is available at www.hydro.com.

Subsidiaries with significant non-controlling interests

The Hydro group consists of about 200 companies in about 40 countries. Most subsidiaries, including the large operating units in Norway and Germany, are 100 percent owned, directly or indirectly, by Norsk Hydro ASA. Restrictions in the ability to transfer dividend based on reported results and/or equity in the relevant subsidiaries exist in most countries where we operate. In some countries, including Brazil, there are also legal restrictions in our ability to integrate cash holdings in subsidiaries in the group's cash pool. There are non-controlling interests in some subsidiaries. The more significant ones are described below.

Albras

Hydro holds 51 percent of the shares in the Brazilian aluminium smelter Alumínio Brasileiro S.A. (Albras), which is part of Primary Metal. The non-controlling owner has significant influence on certain decisions in the entity, including operational and investment budgets. The non-controlling interests in Albras amounted to NOK 2,824 million as of December 31, 2017 and NOK 3,171 million as of December 31, 2016. Funds held by the entity are not available to the group through cash pool arrangements. Dividends need to be approved by the shareholders jointly. The shareholder agreement supports transfer of dividend to the extent possible under statutory regulations. The smelter produces standard ingots, which are sold to its shareholders, or the entities appointed by the shareholders, in proportion to ownership interest at a price based on prevailing aluminium prices at the London Metal Exchange and product premiums.

Slovalco

Hydro holds 55 percent of the total shares and 60 percent of the voting interest in the Slovak smelter Slovalco a.s, which is part of Primary Metal. The non-controlling owner has significant influence on certain decisions in the entity, including operational and investment budgets. The non-controlling interests in Slovalco amounted to NOK 1,036 million as of December 31, 2017 and NOK 1,080 million as of December 31, 2016. Funds held by the entity are not available to the group through cash pool arrangements. Dividends need to be approved by the shareholders jointly. The shareholder agreement supports transfer of dividend to the extent possible under statutory regulations. The smelter produces metal products, of which the majority is sold to Hydro at a price based on prevailing aluminium prices at the London Metal Exchange and product premiums.

Alunorte

Hydro holds about 92 percent of the shares in the Brazilian alumina refinery Alumina do Norte do Brasil S.A. (Alunorte), which is part of Bauxite & Alumina. The non-controlling owners have limited influence on the operational decisions. The non-controlling interests in Alunorte amounted to NOK 1,167 million as of December 31, 2017 and NOK 1,378 million as of December 31, 2016. Funds held by the entity are not available to the group through cash pool arrangements. Dividends need to be approved by the shareholders jointly. The shareholder agreement supports transfer of dividend to the extent possible under statutory regulations. The refinery produces alumina, which is sold to its shareholders in proportion to ownership interest at a price based on prevailing aluminium prices at the London Metal Exchange, with a minimum price based on production cost plus a margin, and a fixed maximum price. Prior to 2017, the minimum price was a fixed amount.

The table below summarizes key figures for Albras, the only subsidiary with non-controlling interests considered material, as included in the group financial statements. Fair value adjustments from Hydro's acquisition of the subsidiary are included. Intercompany transactions and balances are included, and any internal profit and loss in inventory and fixed assets purchased from group companies are not eliminated in the numbers below.

Amounts in NOK million	Albras	
	2017	2016
Internal revenue	3 963	3 293
External revenue	3 839	3 016
Earnings before financial items and tax	975	220
Net income	635	175
Other comprehensive income	(18)	75
Total comprehensive income	618	250
Net cash flows from operating activities	786	522
Net cash flows from investing activities	(420)	(310)
Net cash flows from financing activities	(381)	(148)
Cash and cash equivalents	160	175
Other current assets	2 442	1 288
Non-current assets	5 018	6 453
Current liabilities	(1 362)	(946)
Non-current liabilities	(497)	(500)
Equity attributable to Hydro	(2 937)	(3 298)
Equity attributable to non-controlling interests	(2 824)	(3 171)
Share of net income attributable to non-controlling interest	312	88
Dividends paid to non-controlling interests	307	87

There were no other significant changes to the group during 2017 or 2016.

Note 7 - Operating and geographic segment information

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments which requires Hydro to identify its segments according to the organization and reporting structure used by management. Operating segments are components of a business that are evaluated regularly by the chief operating decision maker for the purpose of assessing performance and allocating resources. Hydro's chief operating decision maker is the President and CEO. Generally, financial information is required to be disclosed on the same basis that is used by the CEO.

Hydro's operating segments represent separately managed business areas with products serving different markets. Hydro's reportable segments are the six business areas Bauxite & Alumina, Primary Metal, Metal Markets, Rolled Products, Extruded Solutions, and Energy.

Bauxite & Alumina activities includes bauxite mining activities, production of alumina and related commercial activities, primarily the sale of alumina.

Primary Metal includes primary aluminium production, remelting and casting activities. The main products are comprised of extrusion ingots, foundry alloys, sheet ingot and standard ingot.

Metal Markets includes all sales activities relating to products from our primary metal plants and operational responsibility for Hydro's stand-alone remelters as well as physical and financial metal trading activities.

Rolled Products includes Hydro's rolling mills and the dedicated primary metal plant in Neuss, Germany. The main products are comprised of aluminium foil, strip, sheet, and lithographic plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates.

Extruded Solutions delivers products within extrusion profiles, building systems and precision tubing and is present in more than 40 countries. Hydro acquired control with the business as of October 2017, see note 6 Significant subsidiaries and changes to the consolidated group. The previous 50 percent ownership in the business as the joint venture Sapa is also reported as part of the segment now named Extruded Solutions.

Energy includes operating and commercial responsibility for Hydro's power stations in Norway and energy sourcing for Hydro's world-wide operations.

Other consist of Hydro's captive insurance company Industriforsikring, its industry parks, internal service providers, and certain other activities.

Operating segment information

Hydro uses two measures of segment results, Earnings before financial items and tax - EBIT and EBITDA. EBIT is consistent with the same measure for the group, considering the principles for measuring certain intersegment transactions and contracts described below. Hydro defines EBITDA as Income (loss) before tax, financial income and expense, depreciation, amortization and write-downs, including amortization and impairment of excess values in equity accounted investments. Hydro's definition of EBITDA may be different from other companies.

Because Hydro manages long-term debt and taxes on a group basis, Net income is presented only for the group as a whole.

Intersegment sales and transfers reflect arm's length prices as if sold or transferred to third parties at the time of inception of the internal contract, which may cover several years. Transfers of businesses or fixed assets within or between Hydro's segments are reported without recognizing gains or losses. Results of activities not considered part of Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported together with Other under the caption Other and eliminations.

The accounting policies used for segment reporting reflect those used for the group. The following exceptions apply for intersegment transactions: Internal commodity contracts may meet the definition of a financial instrument in IAS 39 or contain embedded derivatives that are required to be reported separately and valued at fair value under IAS 39. However, Hydro considers these contracts as sourcing of raw materials or sale of own production, and accounts for such contracts as executory contracts. Certain other internal contracts may contain lease arrangements that qualify as a finance lease. However, the segment reporting reflects the responsibility allocated by Hydro's management for those assets. Costs related to certain pension schemes covering more than one segment are allocated to the operating segments based either on the premium charged or the estimated service cost. Any difference between these charges and pension expenses measured in accordance with IFRS, as well as pension assets and liabilities are included in Other and eliminations.

The following tables include information about Hydro's operating segments.

Amounts in NOK million	External revenue		Internal revenue		Share of the profit (loss) in equity accounted investments	
	2017	2016	2017	2016	2017	2016
Bauxite & Alumina	15 188	12 059	10 234	7 484	-	-
Primary Metal	7 578	5 529	28 888	25 333	745	96
Metal Markets	44 264	39 420	6 341	3 834	-	-
Rolled Products	25 538	22 469	178	163	-	-
Extruded Solutions ¹⁾	14 083	-	70	-	812	889
Energy	2 550	2 426	5 155	4 753	(7)	-
Other and eliminations	18	50	(50 865)	(41 567)	(24)	-
Total	109 220	81 953	-	-	1 527	985

Amounts in NOK million	Depreciation, amortization and impairment		Earnings before financial items and tax (EBIT) ²⁾		EBITDA	
	2017	2016	2017	2016	2017	2016
Bauxite & Alumina	2 486	2 279	3 704	1 196	6 190	3 475
Primary Metal	2 026	1 913	4 729	2 285	6 747	4 199
Metal Markets	95	94	485	629	579	723
Rolled Products	860	799	512	953	1 372	1 752
Extruded Solutions ¹⁾	444	-	2 522	889	2 966	889
Energy	223	210	1 531	1 343	1 757	1 553
Other and eliminations	28	178	(1 295)	(285)	(1 268)	(107)
Total	6 162	5 474	12 189	7 011	18 344	12 485

Amounts in NOK million	Non-current assets		Total assets ³⁾		Investments ⁴⁾	
	2017	2016	2017	2016	2017	2016
Bauxite & Alumina	33 876	36 641	41 075	43 546	1 634	3 544
Primary Metal	30 827	31 297	42 950	40 573	3 537	3 396
Metal Markets	1 292	1 147	7 802	6 955	143	101
Rolled Products	9 094	8 253	19 513	16 629	997	1 615
Extruded Solutions ¹⁾	26 174	8 399	41 946	8 399	22 137	-
Energy	5 645	5 208	6 677	6 247	361	318
Other and eliminations	1 821	3 477	3 364	8 444	39	162
Total	108 730	94 422	163 327	130 793	28 848	9 137

- 1) The Extruded Solutions segment includes the business acquired as a 100 percent owned subsidiary in fourth quarter 2017. For the previous periods, the segment includes the same business reported as 50 percent owned joint venture, reported using the equity method. See note 6 Significant subsidiaries and changes to the consolidated group for further information.
- 2) Total segment Earnings before financial items and tax is the same as Hydro group's total Earnings before financial items and tax. Financial income and financial expense are not allocated to the segments. There are no reconciling items between segment Earnings before financial items and tax to Hydro Earnings before financial items and tax. Therefore, a separate reconciliation table is not presented.
- 3) Total assets exclude internal cash pool accounts and accounts receivables related to group relief.
- 4) 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.

The identification of assets, non-current assets and investments is based on location of operation. Included in non-current assets are investments in equity accounted investments; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

Amounts in NOK million	Revenue		Non-current assets		Investments ⁴⁾	
	2017	2016	2017	2016	2017	2016
Norway	3 094	2 986	22 500	28 007	2 722	3 404
Germany	15 354	12 490	11 511	8 431	3 171	1 636
Spain	4 656	3 920	732	89	578	3
Poland	4 618	3 102	543	-	476	-
Italy	4 422	3 075	362	-	317	-
France	4 102	2 769	2 690	36	2 601	6
United Kingdom	3 932	3 844	1 295	77	654	4
The Netherlands	2 687	1 905	1 319	675	677	23
Austria	2 324	1 620	298	-	291	-
Denmark	1 933	1 443	900	-	900	-
Sweden	1 545	945	805	-	808	-
Belgium	1 394	1 092	1 370	-	1 188	-
Czech Republic	1 134	715	-	-	-	-
Hungary	1 061	622	1 329	-	1 324	-
Portugal	883	639	172	-	173	-
Slovakia	721	466	1 230	1 140	288	45
Other	2 051	1 385	212	143	55	21
Total EU	52 818	40 033	24 768	10 591	13 502	1 739
Switzerland	5 031	4 042	157	296	1	-
Turkey	1 827	1 363	2	-	2	-
Other Europe	906	566	-	-	-	-
Total Europe	63 675	48 990	47 426	38 895	16 221	5 144
USA	13 225	7 101	8 885	779	8 244	44
Canada	742	613	2 071	1 931	409	64
Brazil	5 484	3 700	37 172	40 618	2 551	3 856
Mexico	1 023	870	222	-	195	-
Other America	653	206	104	-	108	-
Singapore	4 586	2 870	2	-	2	-
Japan	4 277	3 665	2	3	-	-
China	2 321	1 627	743	-	714	-
South Korea	2 135	1 879	-	-	-	-
Qatar	1 957	1 682	10 931	11 461	-	-
India	1 248	774	232	-	123	-
Saudi Arabia	1 099	1 619	-	-	-	-
Taiwan	986	685	-	-	-	-
Thailand	838	742	-	-	-	-
Malaysia	832	431	-	-	-	-
Bahrain	441	445	240	-	220	-
Other Asia	2 119	2 666	44	-	11	-
Australia and New Zealand	767	941	656	735	45	29
Africa	810	448	-	-	-	-
Total outside Europe	45 544	32 963	61 303	55 527	12 627	3 993
Total	109 220	81 953	108 730	94 422	28 848	9 137

Note 8 - Board of Directors' statement on executive management remuneration

Board of Directors' statement on executive management remuneration

The statement on the remuneration of the company's Chief Executive Officer (CEO) and other members of the Corporate Management Board has been prepared in accordance with the provisions of the Norwegian Public Limited Companies Act, the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

Guidelines for executive management remuneration

Hydro's guidelines for the remuneration of the company's CEO and other members of the Corporate Management Board reflect Hydro's global human resources policy, whereby *"Hydro shall offer its employees an overall compensation package that is competitive and in line with generally accepted industry standards in the country in question. Where appropriate this package should, in addition to the base salary, comprise a performance-based incentive, which combined, should reflect individual performance."*

Process for determination of remuneration

The Board of Directors has appointed a separate compensation committee. The committee currently includes the board chair, deputy chair and one employee-elected board member. The CEO normally participates in the committee's meetings unless the committee is considering issues regarding the CEO. Other representatives of senior management may attend meetings if requested to do so.

The committee functions as an advisory body to the Board of Directors and the CEO, and is primarily responsible for:

- Making recommendations to the Board of Directors based on the committee's evaluation of the principles and systems underlying the remuneration of the CEO and other members of the Corporate Management Board.
- Making recommendations to the Board of Directors based on the committee's evaluation of the overall remuneration of the CEO, including the annual basis for bonus payments and bonus payments actually made.
- Assisting the CEO by consulting on the remuneration of the other members of the Corporate Management Board.
- Advising the Board of Directors and the CEO in remuneration matters which the committee finds to be of material or principal importance for Hydro.
- Overseeing the company's process for succession planning.

Key principles for determination of remuneration in the coming financial year

The following statement regarding the remuneration of members of the Corporate Management Board will be presented for an indicative vote to the annual general meeting to be held in May 2018. The Board of Directors proposes that the principles set forth below shall apply for 2018 and up until the annual general meeting in 2019.

The remuneration of members of the Corporate Management Board shall reflect at all times the responsibility of the CEO and the other members of the Corporate Management Board for the management of Hydro, taking into account the complexity and breadth of the company's operations, as well as the growth and sustainability of the company. The total remuneration will be rooted in the company's objective of being competitive, but not a remuneration leader, within the relevant labor markets, while at the same time reflecting Hydro's international focus and presence.

Hydro attaches importance to transparency and to ensuring that remuneration arrangements are developed and implemented in accordance with principles for good corporate governance.

The total remuneration of the CEO and other members of the Corporate Management Board consists of a fixed compensation, performance-based bonus, share-based long-term incentive plan, employee share plan, pension and insurance arrangements and, in certain cases, a severance pay arrangement. The Board of Directors will continue to ensure moderation in executive management remuneration.

Fixed compensation

The fixed compensation provided to members of the Corporate Management Board includes a base salary (which is the main element of remuneration) and benefits in kind such as a company car or car allowance, a telephone, newspapers and other

similar benefits. The base salaries of individual members of the Corporate Management Board are evaluated annually in light of the complexity and responsibility of the relevant employee's role and his or her contribution, qualifications and experience, together with conditions in the labor market and general salary trends.

Variable compensation

Bonus

The maximum annual performance-based bonus payable to the CEO is equal to 50 percent of annual base salary. The maximum annual performance-based bonus payable to the other members of the Corporate Management Board appointed on Norwegian employment terms is equal to 40 percent of annual base salary. The Board of Directors evaluates and determines annually the bonus system for the CEO and members of the Corporate Management Board. Bonus payments to the CEO and the other members of the Corporate Management Board are dependent on Hydro achieving positive underlying earnings before interest and tax (EBIT). The bonus parameters are established as part of the annual business-planning process with the objective of having parameters that are ambitious and balanced, and objective and measurable, and which reflect the varied nature of Hydro's operations. The annual bonus shall be determined on the basis of overall achievement of the following elements:

- (a) achievement of one or more pre-defined financial targets for underlying EBIT,
- (b) achievement of strategic, operational, financial and organizational goals, referred to as "key performance indicators" (KPIs). Depending on the business area, these goals includes,
 - productivity and improvements including optimizing of production and margins,
 - resource allocation and availability,
 - cost reduction and control,
 - investment projects,
 - technology,
 - quality control,
 - health, safety, environment, corporate social responsibility and compliance,
 - customer relations,
 - organization development,
- (c) contribution to the company's development, as well as compliance with and the promotion of Hydro's core values (The Hydro Way) and achievement of individual targets, and
- (d) the Board of Directors' overall discretionary assessment.

Bonus payments are not taken into account when determining the basis for pensionable salary.

Long Term Incentive (LTI)

The company has a share-based long-term incentive plan for the CEO and the other members of the Corporate Management Board of up to 30 percent of annual base salary. The plan is evaluated and determined annually by the Board of Directors. LTI payments are dependent on Hydro achieving positive underlying earnings before interest and tax (EBIT) for the previous financial year.

Payments will be based partly on return on capital employed achieved in the company, and partly on return on capital employed achieved in proportion to a weighted average of return on capital employed achieved by a group of peer companies. Recipients of LTI payments are required to invest the net amount (after tax) in Hydro shares with a lock-in period of three years. Any holder of such shares who voluntarily terminates his or her employment during such a three-year period must pay to the company an amount equal to the after-tax value of the relevant shares at or around the last day of employment. LTI payments are not taken into account when determining the basis for pensionable salary.

The company does not offer options or other similar arrangements.

Other share-based compensation

The CEO and other members of the Corporate Management Board appointed on Norwegian employment terms are eligible to participate in Hydro's discounted employee share purchase plan on the same terms as all other eligible employees (as described in Note 17 Employee remuneration).

Pensions

Company pension plans

There are two pension plans in Hydro in Norway, defined benefit and defined contribution. The defined contribution plan was established on March 1, 2010 at the same time as the defined benefit plan was closed to new entrants. A cash compensation scheme has been established for employees who have been transferred from the defined benefit plan to the defined contribution plan and for whom a deficit in pension capital resulting from the transfer has been estimated.

As of January 1, 2018, approximately 81 percent of the permanent employees in Norway, including six members of the Corporate Management Board, are members of the defined contribution plan. The rest, including the CEO and two members of the Corporate Management Board, are members of the defined benefit plan.

The defined contribution plan stipulates payments into the plan equaling six percent of salary between 0G and 12G, where "G" is the Norwegian National Insurance basic amount, and an additional payment of 14 percent of salary between 7.1G and 12G (totaling 20 percent in this salary range). The defined benefit plan implies a pension right of approximately 65 percent of pensionable salary subject to full service period (minimum 30 years).

Hydro Extruded Solutions AS (formerly Sapa AS) has its own defined contribution pension plan with other contribution rates. This plan covers all of the company's employees appointed on Norwegian employment terms.

12G plan

The company has closed the plan funded through operations for earning pension on the portion of any salary exceeding 12G ("12G plan") such that employees with salaries exceeding 12G prior to the plan being closed remain in the plan, while employees with salaries below 12G on the date of closing will not be included in the plan even if their salary later exceeds 12G. New employees, including new members of the Corporate Management Board (recruited internally or externally), will not be offered the possibility to earn pension on the portion of salary exceeding 12G.

For employees with a defined contribution plan, the 12G plan stipulates that an amount equivalent to 20 percent of the portion of salary exceeding 12G is allocated as a vested (pension) right. For employees with a defined benefit plan, the 12G plan stipulates that the portion of salary exceeding 12G is included in the final salary that forms the basis for calculating pension.

The CEO and six members of the Corporate Management Board appointed on Norwegian employment terms are among those still covered by the 12G plan. In connection with Hydro acquiring 100 percent of the shares in Sapa AS (now Hydro Extruded Solutions AS) on October 2, 2017, the company acquired two new members on the Corporate Management Board. These two members earned pension on the portion of salary exceeding 12G in Sapa, but have not been included in Hydro's 12G plan. Instead, an agreement has been reached on an annual cash payment to compensate for the loss of such earnings.

Hydro Extruded Solutions AS has its own plan funded through operations for earning pension on the portion of any salary exceeding 12G.

Early retirement plans

The company's early retirement plans (discussed below) were closed for new members in 2011 and 2012 respectively. Members of the Corporate Management Board who were included in the plans at the time of closing are still covered by the plans.

The CEO and six members of the Corporate Management Board appointed on Norwegian employment terms have a right to retire at the age of 65 with an entitlement to 65 percent of pensionable salary until the age of 67.

The CEO and two members of the Corporate Management Board also have the right to retire after the age of 62. In the case of the CEO, the Board may request him to do so. From the age of 62, defined pension benefits consist of 60 percent of pensionable salary. From the age of 65, the entitlement is 65 percent of pensionable salary (in accordance with the scheme described in the foregoing paragraph).

The pensionable salaries of the CEO and the two abovementioned members of the Corporate Management Board have been capped. The pensionable salary caps are subject to annual adjustment in accordance with the adjustment of the Norwegian National Insurance basic amount. Following the adjustment as of 1 January, 2018, the pensionable salaries are capped at NOK 7,330,150 for the CEO and NOK 4,496,631 for the two members of the Corporate Management Board.

Retirement age

Implementation of a new internal company age limit (70), combined with new flexible rules for pension withdrawals, mean that Hydro in Norway no longer employs the concept of retirement age. In the company's defined benefit pension plan, employees will continue to earn pension up until 67 years of age.

Insurance

The CEO and other members of the Corporate Management Board appointed on Norwegian employment terms are covered by insurance arrangements applicable to Hydro employees with a rank of vice president or higher.

Termination agreement

Severance pay

In the event the CEO's employment is terminated unilaterally by Hydro, the CEO has a contractual right to severance pay for 12 months, but not beyond the age of 62.

Two members of the Corporate Management Board have a similar arrangement as the CEO, i.e. right to severance pay for 12 months, but without the limitation of 62 years. Other members of the Corporate Management Board appointed on Norwegian employment terms have a right to severance pay for six months

None of the Corporate Management Board's employment contracts gives the right to severance pay if the employee has initiated the termination of employment.

Loss of severance pay

The CEO's employment contract contains provisions on the loss of severance pay if there are grounds for summary dismissal. Other employment contracts include provisions on the loss of severance pay in the event of gross breach of duty and/or other material breach.

Reduction of severance pay

The CEO's employment contract and the contracts of five members of the Corporate Management Board appointed on Norwegian employment terms include provisions stating that other income shall reduce severance pay. The other four contracts based on Norwegian terms include clauses stating that other income shall not reduce severance pay.

Notice period

All members of the Corporate Management Board appointed on Norwegian employment terms have a six-month notice period.

General

The company has no specific guidelines for severance packages, but when recruiting for corporate management in recent times, it has followed a practice whereby the total of salary during the notice period and severance pay does not exceed 12 months' salary.

Members of the Corporate Management Board outside Norway

For members of the Corporate Management Board outside Norway, base salary and other employment conditions are determined in accordance with Hydro's global human resources policy and local industry standards, and accords generally with the remuneration principles applicable to the other members of the Corporate Management Board.

Silvio Porto, head of Hydro's business area Bauxite & Alumina, is employed by Norsk Hydro Brasil Ltda. and is covered by two local schemes for variable compensation: one short-term and one long-term incentive scheme, each with a potential of just over ten months of base salary. Both incentive schemes are performance-based as described under "Variable compensation / Bonus" above. The Board of Directors' overall assessment is that Porto's total remuneration framework is in accordance with market practice in Brazil.

Porto is also covered by the Corporate Management Board's share-based LTI plan on the same terms as the other members of the Corporate Management Board.

Key principles for determining compensation during the previous financial year

The compensation of the CEO and the other members of the Corporate Management Board for the financial year 2017 was based on the guidelines presented at the annual general meeting in 2017.

In July 2017, the Board of Directors decided to increase the CEO's base salary by 2.8 percent, from NOK 6,217,000 to NOK 6,391,000 effective 1 January, 2017.

Bonus payments for 2016 were determined and paid in 2017 on the basis of the principles described above. Bonus payments for 2017 were determined in March 2018 on the basis of the principles described above.

LTI for 2016 was determined and paid in 2017 based on previously applicable principles, while LTI for 2017 will be determined during the first half of 2018 based on the principles described above.

Bonus and LTI for 2017 will be paid during the first half of 2018. See also Note 9 – Management remuneration.

Note 9 - Management remuneration

Corporate management board members' salaries and other benefits, number of LTI-shares allocated, as well as Hydro share ownership as of December 31, 2017 and 2016 are presented in the table below. Unless otherwise stated, Hydro did not have any loans to or guarantees made on behalf of any of the corporate management board members in 2017 and 2016.

Name	Base salary 1) 2)	Maximum bonus potential 1) 2)	Salary paid 1) 3)	Other benefits paid 1) 3)	Compensation pension paid 1) 3)	Bonus earned 1) 3)	Long-term incentive (LTI) earned 1) 3)	Pension benefits 1) 4)	LTI-shares allocated 3)	Hydro share ownership 5)
2017										
Svein Richard Brandtzæg	6 391	3 196	6 643	482	-	2 364	1 192	3 619	20 351	231 475
Eivind Kallevik	3 400	1 360	3 287	276	47	1 040	634	1 624	8 222	50 535
Silvio Porto ⁶⁾	3 645	5 823	3 722	1 102	-	3 697	680	234	-	-
Hilde Aasheim	3 329	1 332	3 439	218	-	1 017	621	2 361	8 833	82 287
Kjetil Ebbesberg	3 955	1 515	3 955	708	146	695	656	1 224	8 715	47 857
Egil Hogna ⁷⁾	5 253	525	2 595	69	265	401	245	134	-	20 000
Arvid Moss	3 098	1 239	3 164	275	-	881	578	2 745	8 222	147 203
Anne-Lene Midseim	2 477	991	2 552	162	107	758	462	933	6 571	21 221
Inger Sethov	2 270	908	2 338	268	142	694	423	891	6 012	19 184
Katarina Nilsson ⁷⁾	2 600	260	1 207	140	58	179	121	33	-	-
Hanne Simensen ⁸⁾	2 477	743	2 572	264	95	550	346	913	6 571	19 646
2016										
Svein Richard Brandtzæg	6 217	3 109	6 390	300	-	2 331	1 865	2 578	29 180	210 613
Eivind Kallevik ⁹⁾	3 014	1 206	3 481	306	107	934	754	1 045	11 788	41 802
Silvio Porto ⁶⁾	2 615	-	2 615	776	-	-	-	193	-	-
Hilde Aasheim	3 238	1 295	3 331	173	-	935	810	1 801	12 662	72 943
Kjetil Ebbesberg	3 859	1 472	3 859	721	203	889	920	969	12 469	38 631
Arvid Moss	3 014	1 206	3 321	256	-	854	754	2 080	11 788	138 470
Anne-Lene Midseim	2 409	964	2 471	195	165	723	602	729	9 422	14 139
Inger Sethov	2 204	882	2 266	283	200	635	551	674	8 620	12 661
Hanne Simensen	2 409	964	2 501	279	154	694	602	723	9 422	12 564
Alberto Fabrini ¹⁰⁾	3 738	2 276	3 459	822	-	1 912	-	112	16 799	24 884

1) Amounts in NOK thousand. Amounts paid by subsidiaries outside Norway have been translated to NOK at average exchange rates for each year.

2) Annual base salary per December 31, or per the date of stepping down from the Corporate Management Board. Maximum bonus potential is for the year presented, and for the period as corporate management board member.

3) Salary is the amount paid to the individual during the year presented, and includes vacation pay. Other benefits is the total of all other cash and non-cash related benefits received by the individual during the year presented and includes such items as the taxable portion of insurance premiums, car and mileage allowances and electronic communication items. For most individuals, compensation pension is the amount paid to compensate for future pension shortfall estimated at the time of transition from Hydro's defined benefit pension plans to the defined contribution plan in line with an arrangement applicable to all affected employees in Norway. For Egil Hogna and Katarina Nilsson, compensation pension is the amount paid to compensate for lower pension benefits in Hydro compared to those of former employer Sapa AS (now Hydro Extruded Solutions AS). Bonus is the amount earned in the year presented, including vacation pay, based on performance achieved as corporate management board member. The LTI plan benefit reflects gross (pre-tax) amounts earned in the year presented, and results in LTI shares allocated in the following year. For 2017, the LTI benefits reported represent estimates. For corporate management board members on net salary employment contracts, benefits have been converted to estimated gross (pre-tax) amounts.

4) Pension benefits include the estimated change in the value of defined pension benefits, and reflects both the effect of earning an additional year's pension benefit and the adjustment to present value of previously earned pension rights (interest element). It is calculated as the increase in the Defined Benefit Obligations (DBO) calculated with stable assumptions. Pension benefits also include contributions to defined contribution plans.

5) Hydro share ownership is the number of shares held directly by the corporate management board member and any shares held by close family members and controlled entities. Hydro share ownership is as of December 31, or per the date of stepping down from the Corporate Management Board.

6) Silvio Porto became member of the Corporate Management Board as of December 13, 2016. Porto's compensation as corporate management board member commenced January 1, 2017. In addition to the performance related pay arrangement for all members of the Corporate Management Board, Porto has a cash-paid long-term incentive which is payable over three years with payments partly dependent on salary levels and business results in the following two years, included in bonus. The reported bonus amount represents an estimate.

7) Egil Hogna and Katarina Nilsson became members of the Corporate Management Board as of October 2, 2017. From this date, Hogna and Nilsson have retention agreements that vest after 12 months and six months, respectively. Hogna and Nilsson earned NOK 1,313 thousand and NOK 546 thousand under these agreements in 2017, respectively. These amounts are included in column Salary paid in the table above.

8) Hanne Simensen stepped down from the Corporate Management Board as of October 2, 2017.

9) From October 18 until December 13, 2016, Kallevik was appointed acting EVP/Head of Bauxite & Alumina business area, for which he received an extra remuneration of NOK 368 thousand that is included in the table above. During this period, Kallevik remained in his position as CFO

10) Alberto Fabrini stepped down from the Corporate Management Board and left Hydro as of October 18, 2016. In addition to the benefits included in the table above, Fabrini received salary in his notice period ended November 24, 2016, as well as other statutory benefits at termination, amounting to NOK 1,320 thousand. Fabrini had no work obligations for Hydro in the notice period. Fabrini was not required to make any payments to Hydro for non-vested LTI shares at termination of employment. In addition to the performance related pay arrangement for all members of the Corporate Management Board, Fabrini had a cash-paid long-term incentive which was payable over three years with payments partly dependent on salary levels and business results in the following two years, included in bonus. The reported bonus amount is final.

Note 10 - Board of Directors and Corporate Assembly

Board of Directors' remuneration and share ownership

The remuneration to the Board of Directors consists of the payment of fees and travel compensation. Travel compensation is paid to members living outside Scandinavia who attend meetings in person, with an amount of NOK 10,000 (unchanged from 2016) per meeting. Board members do not have any incentive or share-based compensation. Hydro has not made any guarantees on behalf of any of the board members. The only board members with loans from Hydro are the employee-elected members of the board.

Fees are based on the position of the board members and board committee assignments. Annual fees for 2017 for the chairperson of the board, deputy chairperson and directors are NOK 626,000 (2016: NOK 615,000), NOK 392,000 (2016: NOK 385,000) and NOK 343,000 (2016: NOK 337,000), respectively. The chairperson of the audit committee and the chairperson of the compensation committee receive an additional NOK 198,000 (2016: NOK 195,000) and NOK 114,000 (2016: NOK 112,000) annually in fees, respectively, and audit and compensation committee members receive NOK 129,000 (2016: NOK 127,000) and NOK 86,000 (2016: NOK 84,000) annually, respectively, for their participation on these committees. No fees are paid to the board observer.

Total board fees and individual board member fees for 2017 and 2016, and outstanding loans and board member share ownership as of December 31, 2017 and 2016, are presented in the tables below.

Board of Directors' fees

Amounts in NOK thousand	2017	2016
Fees and other remuneration - normal board activities	3 419	3 746
Fees - compensation committee	286	315
Fees - audit committee	531	502
Total fees for board services provided to Hydro during the year	4 236	4 563

Board member / observer	Board fees ¹⁾		Outstanding loans ^{1) 2)}		Number of shares ³⁾	
	2017	2016	2017	2016	2017	2016
Dag Mejdell ⁴⁾	740	727	-	-	35 000	35 000
Irene Rummelhoff ⁵⁾	478	449	-	-	5 000	5 000
Finn Jepsen ⁶⁾	541	486	-	-	53 406	53 406
Thomas Schulz ⁷⁾	343	197	-	-	-	-
Liv Monica Stubholt ⁸⁾	472	464	-	-	-	-
Marianne Wiinholt ⁹⁾	418	197	-	-	-	-
Billy Fredagsvik ^{10) 11)}	418	411	87	175	4 587	4 076
Sten Roar Martinsen ^{11) 12)}	429	421	-	-	5 643	5 132
Svein Kåre Sund ^{11) 13)}	200	-	49	-	5 208	-
Tor Egil Skulstad ^{11) 14)}	-	-	-	-	-	-
Ove Ellefsen ^{11) 15)}	197	390	-	-	8 972	8 461
Pedro Rodrigues ¹⁶⁾	-	387	-	-	-	-
Inge K. Hansen ¹⁷⁾	-	242	-	-	-	12 000
Eva Persson ¹⁸⁾	-	193	-	-	-	-
Total	4 236	4 563	137	175	117 816	123 075

- 1) Amounts in NOK thousand.
- 2) Loans are extended to board members who are also Hydro employees under an employee benefit scheme available to all employees in Norway. Loans are as of December 31, 2017 and 2016 for board members as of December 31, 2017 and 2016; otherwise loans are as of the date the individual stepped down from the Board of Directors. At the end of 2017, the loan to Billy Fredagsvik had an interest rate of 7.5 percent, with a repayment period of 11 months. At the end of 2017, the loan to Svein Kåre Sund had an interest rate of 7.5 percent, with a repayment period of 13 months. All payments have been made in a timely fashion and in accordance with the agreed payment schedule. Loans have not been extended to close members of family and controlled entities.
- 3) Number of shares owned as of December 31, 2017 and 2016 for board members as of December 31, 2017 and 2016; otherwise it is the number of shares owned as of the date the individual stepped down from the Board of Directors. Shareholdings disclosed include shares held by close members of family and controlled entities, in addition to shares held directly by the board member.
- 4) Chairperson of the board and chairperson of the board compensation committee.
- 5) Deputy chairperson of the board as of May 26, 2016. Member of the board compensation committee.
- 6) Chairperson of the board audit committee as of May 26, 2016. Member of the board compensation committee until May 26, 2016.
- 7) Member of the board as of May 26, 2016.
- 8) Member of the board audit committee.
- 9) Member of the board audit committee as of June 7, 2017. Member of the board as of May 26, 2016.
- 10) Member of the board audit committee until August 1, 2016, and as of June 7, 2017.
- 11) Employee representative on the board elected by the employees in accordance with Norwegian Company Law. As such, these individuals also are paid regular salary, remuneration in kind and pension benefits that are not included in the table above.
- 12) Member of the board compensation committee.
- 13) Member of the board as of May 23, 2017.
- 14) Observer on the board as of October 2, 2017.
- 15) Member of the board and the board audit committee until May 23, 2017. Member of the board audit committee as of August 1, 2016.
- 16) Member of the board until January 1, 2017.
- 17) Deputy chairperson of the board and chairperson of the board audit committee until May 26, 2016.
- 18) Member of the board and member of the board audit committee until May 26, 2016.

Corporate Assembly

Corporate Assembly members owned 23,047 shares as of December 31, 2017. Loans to employees who are members of the Corporate Assembly were extended under an employee benefit scheme that is available to all employees in Norway. Loans outstanding to Corporate Assembly members who are also Hydro employees totaled NOK 210 thousand as of December 31, 2017. The interest rates on these loans are 3.15 percent and 7.50 percent, with a repayment period between five and seven years.

Note 11 - Related party information

As of December 31, 2017, The Norwegian state had ownership interests of 34.7 percent of total shares outstanding (2016: 34.7 percent) in Hydro through the Ministry of Trade, Industry and Fisheries. In addition, Folketrygdfondet, which manages the Government Pension Fund - Norway ¹⁾ held 6.5 percent (2016: 6.2 percent). There are no preferential voting rights associated with the shares held by the Norwegian State. Hydro has concluded that the Norwegian state's shareholding represents significant interest in Hydro, and that the State thus is a related party.

The Norwegian state has ownership interests in a substantial number of companies. The ownership interests in 74 companies are managed by the ministries and covered by public information from the Ministry of Trade, Industry and Fisheries ²⁾. We have not assessed which of these companies that are controlled by the State. Hydro has business transactions with a number of these companies, including purchase of power from Statkraft SF. Generally, transactions are agreed independent of the possible control exercised by the State.

The public enterprise Enova, which supports new energy and climate-related technology development in Norway, decided in June 2014 to contribute up to NOK 1.6 billion to Hydro's pilot project for new electrolysis technology at Karmøy, Norway. The contribution was approved by the European Free Trade Association, EFTA, in February 2015 with the first payment in July 2015. The majority of the grant has been paid over the preparation and building period. As of the end of 2017, a total of NOK 1,244 million was received. The final project report to Enova is planned to be issued towards the middle of 2018, with final payments after approval of report, which is estimated during the second half of 2018.

A significant share of Hydro's defined benefit post-employment plans is managed by the independent pension trust, Norsk Hydro Pensjonskasse. Employees managing and operating the pension trust are employees of Norsk Hydro ASA. Their salaries and other benefits are reimbursed by the pension trust on a monthly basis, in total NOK 8 million for both 2017 and 2016. Further, the pension trust is located in Hydro's head office. Office costs, including heating and administrative services, are charged with a total of NOK 2 million for 2017 and NOK 5 million for 2016.

The pension trust owns some of the office buildings rented by Hydro. The rental arrangement was entered into in 2006, and priced based on market price benchmarks at that time. Hydro has paid a total of NOK 142 million and NOK 152 million for 2017 and 2016, respectively, related to the contract, of which NOK 23 million was outstanding at year end 2017. In 2013, Hydro concluded that the rental contract was loss making, and in December 2015 the contract was renegotiated, reducing the area rented. Hydro pays compensation for reduced rental level related to this area, and certain costs including identified maintenance projects over the remaining contract period until 2021. Such costs are included in the amounts above. The remaining provision as of December 31, 2017 was NOK 315 million.

The members of Hydro's board of directors during 2017 and 2016 are stated in note 10 Board of Directors and Corporate Assembly, where their remuneration and share ownership is outlined. Some of the board members or their close members of family serve as board members or executive directors in other companies. In addition, some members of Hydro's corporate management board or their close members of family serve as board members in other companies. Hydro has transaction with some of those companies; however, have not identified any transactions where the relationship is known to have influenced the transaction. The board member Liv Monica Stubholt is partner in the Norwegian law firm Advokatfirmaet Selmer DA. Selmer has had assignments for Hydro resulting in fees of NOK 2.0 million in 2017 and NOK 2.0 million in 2016. Stubholt has not been involved in these services to Hydro. Some close family members of members of Hydro's management are employed in non-executive positions in Hydro.

Hydro's significant joint arrangements and transactions with those entities are described in note 31 Investments in joint arrangements and associates. Hydro has joint arrangements with a number of other companies. Generally, the relationships are limited to a combined effort within a limited area. Hydro considers the joint venture partners as competitors in other business transactions, and do not see these relationships as related party relationships.

1) Shareholding is based on information from the Norwegian Central Securities Depository (VPS) as of December 31, 2017 and 2016. Due to lending of shares, an investor's holdings registered in its VPS account may vary.

2) According to information on the Government web site www.regjeringen.no, state ownership.

Note 12 - Financial and commercial risk management

Hydro is exposed to market risks from fluctuations in the price of commodities bought and sold, prices of other raw materials, currency exchange rates and interest rates. Price volatility, which may be significant, can have a substantial impact on Hydro's results. Market risk exposures are evaluated based on a holistic approach in order to take advantage of offsetting positions and to manage risk on a net exposure basis. Natural hedging positions are established where possible and economically viable. Hydro uses financial derivatives to some extent to manage financial and commercial risk exposures. Hydro's main policy to manage market volatility is to keep a strong financial position. Hydro's market risk strategy is materially unchanged in 2017 compared to previous years.

Commodity price risk exposure

Aluminium

Hydro produces primary aluminium, aluminium casthouse products both based on primary aluminium and remelted aluminium, and fabricated aluminium products. Hydro also engages in sourcing and trading activities to procure raw materials and primary aluminium for internal use and for resale to customers. These activities serve to optimize capacity utilization, reduce logistical costs and strengthen our market positions. Hydro also participates in trading activities within strict volume and risk limits.

Hydro enters into future contracts on the London Metal Exchange (LME) mainly for two purposes. The first is to achieve an average LME aluminium price on smelter production, matching the average customer pricing pattern. Second, because Hydro's downstream businesses, remelting, and the sale of third party products are based on margins above the LME price, Hydro seeks to offset the metal price exposure when entering into customer and supplier contracts with corresponding physical or derivative future contracts at fixed prices (back-to-back hedging). Hydro manages these exposures on a portfolio basis, taking LME positions based upon net exposures within given limits. Aluminium price volatility can result in significant fluctuations in earnings as the derivative positions are marked to their market value with changes to market value recognized in the income statement, while the underlying physical metal transactions normally are not marked-to-market, except for those included in trading portfolios. The majority of Hydro's LME contracts mature within one year.

Hydro's sales of primary aluminium, aluminium casthouse products and fabricated aluminium products include a premium above the LME aluminium price. The pricing of these premiums can be volatile, and is related to physical demand and supply, with regional and product-related differences. Over the later years, these premiums have been a higher share of the revenue than historic averages, however, have during 2017 been closer to historic averages. There are limited possibilities for hedging future premiums, except for standard ingot premiums, for which a forward market exists. Hydro has from time to time entered into contracts for standard ingot premiums to mitigate risk in sales contracts.

In order to secure cash flow or margins for specific projects or special circumstances, Hydro might enter into futures contracts on a longer-term basis. In these cases, hedge accounting has normally been applied.

Bauxite and alumina

Hydro's production of alumina exceeds the alumina consumption in its primary aluminium production. In addition, Hydro has entered into long-term agreements to purchase alumina from third parties. The older alumina purchase and sale contracts are priced as a percentage of the LME aluminium price. New contracts, and thus an increasing part of the contracts, are purchased and sold with reference to a spot market price index.

Hydro is a producer and consumer of bauxite. Hydro's needs for bauxite are secured through long-term contracts as well as by own production. The purchasing contracts have links to the LME aluminium price and to alumina indexes. Bauxite is sold under medium and short-term contracts with prices linked to the alumina price index or open price negotiations.

Electricity

Hydro is a large power consumer with significant power production. Hydro's consumption is mainly secured through long-term contracts with power suppliers and through Hydro's own production in Norway. Hydro's own production is influenced by hydrological conditions which can vary significantly. The net power position in Norway is balanced out in the Nordic power market. In order to manage and mitigate risks related to price and volume fluctuations, Hydro utilizes physical contracts and derivatives including future contracts, forwards and options. Hydro also participates in trading activities within strict volume and risk limits.

A significant part of Hydro's power purchase contracts are linked to aluminium prices in order to mitigate market price risk related to the sales of its aluminium products. These contract elements are separated from their host contracts and accounted for as derivatives. Further, some power contracts in Norway are priced in Euro. There is no consensus that the Euro is a commonly used currency in the relevant market, the euro price clauses are thus accounted for separately as currency forwards.

Other raw materials

Hydro is party to both long-term and short-term sourcing agreements for a range of raw materials and services with both fixed and variable prices. Such agreements include pitch, petroleum coke, caustic, natural gas, coal, fuel oil and freight. The number of purchasing agreements with prices linked to the price of other commodities such as aluminium is limited and the fair value exposure is considered to be immaterial.

Foreign currency risk exposure

The prices of Hydro's upstream products bauxite, alumina and primary aluminium, are mainly denominated in US dollars. Margins for mid- and downstream products are mainly priced in US dollars and Euro. Further, the prices of major raw materials used in Hydro's production processes, are quoted in US dollars in the international commodity markets. Hydro also incurs local costs related to the production, distribution and marketing of products in a number of different currencies, mainly Norwegian Krone, Brazilian Real, Euro and US dollar.

Hydro's primary underlying foreign currency risk is consequently linked to fluctuations in the value of the US dollar and Euro versus the currencies in which significant costs are incurred. In addition, Hydro's results and equity are influenced by value changes for the functional currencies of the individual entities and the Norwegian Krone as the Group's presentation currency.

To mitigate the impact of exchange rate fluctuations, long-term debt is mainly maintained in currencies reflecting underlying exposures and cash generation, while considering attractiveness in main financial markets. To reduce the effects of fluctuations in the US dollar and other exchange rates, Hydro also uses foreign currency swaps and forward currency contracts from time to time.

Foreign currency risk exposure in financial instruments

Short-term receivables and payables are often held in currencies other than the functional currency of the unit. Fluctuations between the functional currency and the currency in which the receivable or payable is denominated are reported in Financial expense. Borrowings and deposits may be denominated in other currencies than the functional currency of the unit. Fluctuations between the functional currency and the instrument's currencies, both short and long term, impact the recognized value of the debt or deposit, and are reported in Financial expense. Embedded currency derivatives in non-financial contracts, including the Euro priced electricity contracts discussed above, contains a currency exposure with changes to the fair value of the embedded derivative included in Financial expenses. Investments in equity and debt instruments of other entities are often impacted by changes in currency exchange rates. To the extent such investments are carried at fair value, the currency changes are included in the changes of fair value and reported as an integral part of such changes.

Interest rate exposure

Hydro is exposed to changes in interest rates, primarily as a result of financing its business operations and managing its liquidity in different currencies. Cash and other liquid resources, as well as debt, are currently mainly held in Norwegian Krone, Swedish Krone, Euro, US dollars and Brazilian real. The corresponding interest rate exposures are consequently related to Norwegian Krone, Swedish Krone, Euro, US dollar and Brazilian real short-term rates.

Financial instruments and provisions are also exposed to changes in interest rates in connection with discounting of positions to present value. See sensitivity analysis of financial instruments in note 13 Financial instruments.

Credit risk management

Hydro manages credit risk by setting counterparty risk limits and establishing procedures for monitoring exposures and timely settlement of customer accounts. Prepayments or guarantees are required where credit risk is outside the limits set for the relevant counterpart. Hydro is also monitoring the financial performance of key suppliers in order to reduce the risk of default on operations and key projects. Our overall credit risk exposure is reduced due to a diversified customer base representing various industries and geographic areas. Enforceable netting agreements, guarantees, and credit insurance, also contribute to a lower credit risk.

Credit risk arising from derivatives is generally limited to net exposures. Exposure limits are established for financial institutions relating to current accounts, deposits and other obligations. Credit risk related to commodity derivatives is limited by settlement through commodity exchanges such as the London Metal Exchange, Nasdaq, and banks. Current counterparty risk related to the use of derivative instruments and financial operations is considered limited.

Liquidity risk

Volatile commodity prices and exchange rates as well as fluctuating business volumes and inventory levels can have a substantial effect on Hydro's cash positions and borrowing requirements.

To fund cash deficits of a more permanent nature Hydro will normally raise equity, long-term bond or bank debt in available markets.

Repayments of long-term debt are disclosed in note 33 Short and long-term debt. Further, all other financial liabilities, such as trade payables, with the exception of derivatives, have a final maturity date within one year. An overview of estimated gross cash flows from derivatives accounted for as liabilities and assets is presented below. Many of these assets and liabilities are offset by cash flows from contracts not accounted for as derivatives.

Risk of significant cash payments or margin calls related to derivative instruments is limited due to strict volume limits, value-at-risk and tenor limits for relevant trading activities.

Information about derivatives and other financial instruments held, including sensitivity analysis, is presented in note 13 Financial instruments.

Expected gross cash flows from derivatives accounted for as financial liabilities and financial assets, respectively, as of end of year:

Amounts in NOK million	December 31, 2017		December 31, 2016	
	Liabilities	Assets	Liabilities	Assets
2017			(408)	396
2018	(456)	526	(23)	40
2019	(47)	47	(9)	5
2020	(14)	12	(4)	-
Total	(517)	585	(444)	441

The cash flows above are to a large extent subject to enforceable netting agreements reducing Hydro's exposure substantially.

For additional information on contracts accounted for at fair value, see note 14 Derivative instruments and hedge accounting.

Note 13 - Financial instruments

Financial instruments, and contracts accounted for as such, are in the balance sheet included in several line items and classified in categories for accounting treatment. A reconciliation of the financial instruments in Hydro is presented below:

Amounts in NOK million	Financial instruments at fair value through profit or loss ¹⁾	Derivatives identified as hedging instruments	Loans and receivables	Available-for- sale financial assets ²⁾	Other financial liabilities ³⁾	Non-financial assets and liabilities ⁴⁾	Total
2017							
Assets - current							
Cash and cash equivalents	-	-	11 828	-	-	-	11 828
Short-term investments	1 053	-	257	-	-	-	1 311
Trade and other receivables	-	-	17 031	-	-	2 953	19 983
Other current financial assets	602	-	-	-	-	-	602
Assets - non-current							
Investments accounted for using the equity method	-	-	1	-	-	11 220	11 221
Other non-current assets	268	-	960	1 505	-	1 678	4 410
Liabilities - current							
Bank loans and other interest-bearing short-term debt	-	-	-	-	8 245	-	8 245
Trade and other payables	-	-	-	-	12 318	7 243	19 561
Other current financial liabilities	645	8	-	-	2	-	655
Liabilities - non-current							
Long-term debt	-	-	-	-	9 012	-	9 012
Other non-current financial liabilities	2 004	37	-	-	-	-	2 041
2016							
Assets - current							
Cash and cash equivalents	-	-	8 037	-	-	-	8 037
Short-term investments	1 067	-	3 544	-	-	-	4 611
Trade and other receivables	-	-	8 902	-	-	1 982	10 884
Other current financial assets	457	-	-	-	-	-	457
Assets - non-current							
Investments accounted for using the equity method	-	-	2	-	-	19 805	19 807
Other non-current assets	47	-	713	1 667	-	1 882	4 309
Liabilities - current							
Bank loans and other interest-bearing short-term debt	-	-	-	-	3 283	-	3 283
Trade and other payables	-	-	-	-	5 860	4 247	10 108
Other current financial liabilities	446	79	-	-	-	-	526
Liabilities - non-current							
Long-term debt	-	-	-	-	3 397	-	3 397
Other non-current financial liabilities	867	201	-	-	-	-	1 067

1) Financial instruments at Fair Value Through Profit or Loss (FVTPL) are trading instruments required by IAS 39 to be at FVTPL.

2) Includes the investment in the independent pension trust Norsk Hydros Pensjonskasse, carried at cost.

3) Items disclosed under this category are financial liabilities at amortized cost.

4) Includes items that are excluded from the scope of IFRS 7, such as investments accounted for using the equity method, except loans to such entities.

The above specification relates to financial statement line items containing financial instruments.

Hydro's liability to acquire the remaining shares in Paragominas, which was recognized net of certain warranties measured at fair value, was settled in December 2016, resulting in a gain.

Financial assets, classified as current and non-current, represent the maximum exposure Hydro has towards credit risk as at the reporting date.

Collateral or margin calls are required for some financial liabilities, primarily related to derivative transactions. Such collaterals for financial instruments are reported as part of Short-term investments.

Impairment of receivables are disclosed in note 25 Trade and other receivables. No other financial assets are currently impaired based on credit losses.

Gains and losses

Realized and unrealized gains and losses from financial instruments and contracts accounted for as financial instruments are included in several line items in the income statement. Below is a reconciliation of the effects from Hydro's financial instruments in the income statements:

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets and liabilities	Total ¹⁾
2017							
Income statement line item							
Revenue	541	-	-	-	-	-	541
Raw material and energy expense	281	85	-	-	-	-	366
Financial income	(44)	-	-	(115)	-	-	(158)
Financial expense	811	-	-	-	-	-	811
Gain/loss directly in Other comprehensive income							
Recognized in Other comprehensive income (before tax)				266			
Removed from Other components of equity and recognized in the income statement				-			
2016							
Income statement line item							
Revenue	(13)	-	-	-	-	-	(13)
Other income	(254)	-	-	-	-	-	(254)
Raw material and energy expense	141	124	-	-	-	-	265
Other expense	(141)	-	-	-	-	-	(141)
Financial income	(27)	-	-	(77)	-	-	(104)
Financial expense	(795)	-	-	-	-	-	(795)
Gain/loss directly in Other comprehensive income							
Recognized in Other comprehensive income (before tax)				71			
Removed from Other components of equity and recognized in the income statement				-			

1) Amount indicates the total gains and losses to financial instruments for each specific income statement line item.

Currency effects, with the exception of currency derivatives, are not included above. Negative amounts indicate a gain.

Sensitivity analysis

In accordance with IFRS, Hydro has chosen to provide information about market risk and potential exposure to hypothetical loss from its use of derivative financial instruments and other financial instruments and derivative commodity instruments through sensitivity analysis disclosures. The sensitivity analysis depicted in the tables below reflects the hypothetical gain/loss in fair values that would occur assuming a 10 percent increase in rates or prices and no changes in the portfolio of instruments as of December 31, 2017 and December 31, 2016. Effects shown below are largely also representative of reductions in rates or prices by 10 percent but with the opposite sign convention. Only effects that would ultimately be accounted for in the income statement, or equity, as a result of a change in rates or prices, are included. All changes are before tax.

Amounts in NOK million	Fair value as of December 31, 2017 ¹⁾	Gain (loss) from 10 percent increase in						
		Foreign currency exchange rates			Commodity prices		Interest	
		USD	EUR	Other	Aluminium	Other	rates	Other
Derivative financial instruments ²⁾	(1 574)	(1)	(2 018)	(3)	-	-	21	-
Other financial instruments ³⁾	2 088	(160)	128	(214)	-	-	2	31
Derivative commodity instruments ⁴⁾	(205)	(56)	23	11	(130)	(41)	(14)	(3)
Financial instruments through OCI ⁵⁾	924	282	(5)	-	-	33	(122)	95

Amounts in NOK million	Fair value as of December 31, 2016 ¹⁾	Gain (loss) from 10 percent increase in						
		Foreign currency exchange rates			Commodity prices		Interest	
		USD	EUR	Other	Aluminium	Other	rates	Other
Derivative financial instruments ²⁾	(805)	-	(1 625)	-	-	-	9	-
Other financial instruments ³⁾	10 261	(146)	299	87	-	-	3	31
Derivative commodity instruments ⁴⁾	(4)	(103)	(8)	-	(323)	(50)	2	(5)
Financial instruments through OCI ⁵⁾	852	277	(28)	-	-	18	(98)	91

1) The change in fair value due to price changes is calculated based on pricing formulas for certain derivatives, the Black-Scholes/Turnbull-Wakeman models for options and the net present value of cash flows for certain financial instruments or derivatives. Discount rates vary as appropriate for the individual instruments.

2) Includes forward currency contracts and embedded currency derivatives.

3) Includes cash and cash equivalents, investments in securities, bank loans and other interest-bearing short-term debt and long-term debt. Trade payables and trade receivables are also included.

4) Includes all contracts with commodities as underlying, both financial and physical contracts, such as LME contracts and NASDAQ Nordic Power contracts, which are accounted for at fair value.

5) Includes shares classified as available-for-sale and hedging derivatives.

The above sensitivity analysis reflects sensitivities for the instruments held at the balance sheet dates only. Related offsetting physical positions, contracts, and anticipated transactions are not reflected. The calculations do not take into consideration any adjustments for potential correlations between the risk exposure categories, such as the effect of a change in a foreign exchange rate on a commodity price.

The above discussion about Hydro's risk management policies and the estimated amounts included in the sensitivity analysis relates to the balance sheet position as of December 31. Outcomes at other dates could differ materially based on actual developments in the global markets and Hydro's positions. The methods used by Hydro to analyze risks discussed above should not be considered as projections of future events, gains or losses.

The following is an overview of fair value measurements categorized on the basis of observability of significant measurement inputs. Certain items are valued on the basis of quoted prices in active markets for identical assets or liabilities (level 1 inputs), others are valued on the basis of inputs that are derived from observable prices (level 2 inputs), while certain positions are valued on the basis of judgmental assumptions that are to a limited degree or not at all based on observable market data (level 3 inputs). The level in this fair value hierarchy within which measurements are categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

Amounts in NOK million	2017	Level 1	Level 2	Level 3	2016	Level 1	Level 2	Level 3
Assets								
Commodity derivatives	845	451	199	195	504	139	339	26
Currency derivatives	25	25	-	-	-	-	-	-
Securities held for trading	1 053	331	722	-	1 067	317	740	10
Available for sale financial assets	969	-	-	969	1 132	-	-	1 132
Total	2 893	808	921	1 164	2 703	456	1 080	1 167
Liabilities								
Commodity derivatives	(1 049)	(419)	(157)	(473)	(508)	(62)	(398)	(47)
Currency derivatives	(1 600)	(34)	(1 566)	-	(805)	-	(805)	-
Cash flow hedges	(45)	-	-	(45)	(280)	-	-	(280)
Total	(2 694)	(453)	(1 723)	(519)	(1 593)	(62)	(1 203)	(328)

The following is an overview in which changes in level 3 measurements are specified:

Amounts in NOK million	Commodity derivatives Assets	Commodity derivatives Liabilities	Currency derivatives Liabilities	Cash flow hedges	Available for sale financial assets	Other
December 31, 2015	167	(221)	-	(443)	1 263	360
Total gains (losses)						
in income statement	(146)	85	-	-	(10)	408
in Other comprehensive income	-	-	-	39	(71)	-
Settlements	4	98	-	124	-	(738)
Currency translation difference	-	(10)	-	-	(51)	(21)
December 31, 2016	26	(47)	-	(280)	1 132	10
Total gains (losses)						
in income statement	174	(473)	-	-	-	-
in Other comprehensive income	-	-	-	149	(266)	-
Purchases	-	-	-	-	7	-
Reclassified to level 2	-	-	-	-	-	(5)
Settlements	(1)	51	-	86	-	(5)
Currency translation difference	(4)	(3)	-	-	98	-
December 31, 2017	195	(473)	-	(45)	969	-
Total gains (losses) for the period	174	(473)	-	149	(266)	-
Total gains (losses) for the period included in the income statement for assets held at the end of the reporting period	174	(473)	-	-	-	-

Gains or losses relating to level 3 commodity derivatives appearing in the table above are included in the income statement in Raw material and energy expense. Changes in fair value for embedded derivatives are reported as gains or losses for the period. Changes in fair value for hedge instruments are reported in Other comprehensive income. Changes in fair value on available for sale assets are reported in Other comprehensive income while dividends received and realized gains and losses are included in Financial income.

Certain measurements classified as level 3 are highly sensitive to changes in assumptions, the effects of which would be material. Some of the instruments are sensitive to judgmental factors such as probabilities of certain future events and interpretation of contracts or legal issues. These are not reflected in the table below. Sensitivities relating to commodity derivatives are based on models utilized in the calculation of position balance as of December 31, adjusted for alternate assumptions. Effects shown below are largely also representative of increases in rates or prices by 10 percent but with the opposite sign convention. The following is an overview of such sensitivity:

Amounts in NOK million	Gain (loss) from 10 percent decrease in				
	USD	EUR	Aluminium	Other commodity	Interest rates
Commodity derivatives	69	-	20	41	16
Cash flow hedges	-	5	-	(33)	-
Available for sale financial assets	(337)	-	-	-	142

Note 14 - Derivative instruments and hedge accounting

Derivative instruments, whether physically or financially settled, are accounted for under IAS 39. All derivative instruments are accounted for at fair value with changes in the fair value recognized in the income statement, unless specific hedge criteria are met. Some of Hydro's commodity contracts are deemed to be derivatives under IFRS. For further explanation on the principles for which physical commodity contracts that are accounted for as derivatives, and which are considered own use, see note 2 Significant accounting policies.

Embedded derivatives

Some contracts contain pricing links that affect cash flows in a manner different than the underlying commodity or financial instrument in the contract. For accounting purposes, these embedded derivatives are in some circumstances separated from the host contract and recognized at fair value. Hydro has separated and recognized at fair value embedded derivatives related to currency, aluminium, inflation and coal links from the underlying contracts.

Commodity derivatives

The following types of commodity derivatives were recorded at fair value on the balance sheet as of December 31, 2017 and December 31, 2016. Contracts that are designated as hedging instruments in cash flow hedges are not included. The presentation of fair values for electricity and aluminium contracts shown in the table below includes the fair value of traditional derivative instruments such as futures, forwards and swaps, in conjunction with the physical contracts accounted for at fair value, as well as embedded derivatives.

Amounts in NOK million	2017	2016
Assets		
Electricity contracts	175	320
Aluminium futures, forwards and options	719	395
Other	164	153
Netting	(213)	(364)
Total	845	504
Liabilities		
Electricity contracts	(162)	(409)
Coal forwards	(397)	(364)
Aluminium futures, forwards and options	(704)	(99)
Netting	213	364
Total	(1 049)	(508)

Embedded derivatives are classified based on the underlying in the contract feature constituting a separable embedded derivative in the table above. Where there are more than one embedded derivative in the same host contract, those embedded derivatives are offset in settlement and thus presented net on the balance sheet.

Changes in the fair value of commodity derivatives are included in operating revenues or cost of goods sold based on classification of host contract for embedded derivatives and on the purpose of the instrument for freestanding derivatives.

Cash flow hedges

Hydro has to a limited extent used cash flow hedge accounting for its risk management positions. Gains and losses on the hedge derivatives are recognized in Other comprehensive income, and accumulated in the hedging reserve in equity and

reclassified into operating revenues or cost when the corresponding forecasted sale or consumption is recognized. In 2012 Hydro entered into a hedge arrangement for parts of the power consumption in the Rheinwerk smelter in Germany. The price differential between the German and the Nordic power market was secured through derivative contracts for 150 MW for the period 2013 to 2020.

No ineffectiveness was recognized in the income statement in 2017 or 2016.

The table below gives aggregated numbers related to the cash flow hedges for the period 2016 to 2017.

	2018	2017	2016
Expected to be reclassified to the income statement during the year (NOK million)	(8)	(73)	(33)
Reclassified to the income statement from Other components of equity (NOK million) ¹⁾		(79)	(81)

1) Deviates from expected reclassifications due to changes in market prices throughout the year. Negative amounts indicate a loss.

Liabilities of NOK 45 million and NOK 280 million were recognized as the fair value of cash flow hedging instruments for December 31, 2017 and 2016, respectively.

Hydro performs trading operations to reduce currency exposures on commodity positions. The effect of such operations is recognized as a part of Financial expense in the income statement.

For the after tax movement in Hydro's equity relating to cash-flow hedges for 2017 and 2016, please see note 37 Shareholders' equity.

Fair Value of Derivative Instruments

The fair value of derivative financial instruments such as currency forwards and swaps is based on quoted market prices. The fair market value of aluminium and electricity futures/forwards and option contracts is based on quoted market prices obtained from the London Metals Exchange and NASDAQ Nordic Power/EEX (European Energy Exchange) respectively. The fair value of other commodity over-the-counter contracts and swaps is based on quoted market prices, estimates obtained from brokers and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recognized at fair value in accordance with IAS 39, such fair market values are based on quoted forward prices in the market, and assumptions of forward prices and margins where market prices are not available. Hydro takes credit-spread into consideration when valuating positions when necessary.

For further information on fair values, see note 4 Measurement of fair value. See note 13 Financial instruments for a specification of the classification of derivative positions according to a fair value hierarchy.

Note 15 - Other income

Amounts in NOK million	2017	2016
Gain on sale of property, plant and equipment	30	102
Net gain (loss) on sale of subsidiaries, associates and joint ventures ¹⁾	2 177	234
Revenue from utilities ²⁾	89	161
Rental revenue	42	85
Government grants ³⁾	498	64
Other ⁴⁾	110	385
Other income, net	2 947	1 030

1) Amount in 2017 related mainly to the net remeasurement gain on the previously owned shares in Sapa. Gain in 2016 mainly related to the sale of Herøya Industripark AS.

2) Revenue from utilities includes quay structures, pipe network, tank terminal, process water and grid rental.

3) Government grants consist mainly of export grants in Brazil.

4) Other includes royalties and insurance compensations. Amount in 2016 also includes a gain of NOK 254 million related to the settlement of a contingent consideration related to the acquisition of certain businesses from Vale.

Note 16 - Raw material and energy expense

Amounts in NOK million	2017	2016
Raw material expense and production related cost	70 050	52 364
Change in inventories own production	(202)	(213)
Raw material and energy expense	69 848	52 151

Raw material expense and production related cost include effect of commodity derivative instruments. See note 14 Derivative instruments and hedge accounting.

Note 17 - Employee remuneration

Employee share purchase plan

Hydro has established a share purchase plan for employees in Norway. The plan payout is based on whether the share price (adjusted for dividend paid) increases with at least 12 percent or not during the performance period. Employees are eligible to receive an offer to purchase shares under this plan if they were 1) employed by Norsk Hydro ASA or a more than 90 percent owned Norwegian subsidiary, and 2) employed as of December 31 through the final acceptance date of the share purchase offer. Employees are invited to purchase shares with a rebate of 50 percent for a value of NOK 12,500 or NOK 25,000, depending on shareholder return. The share purchase is financed through a non-interest bearing loan from the company with a repayment period of 12 months.

Compensation expense related to the 2016 performance measurement period was accrued and recognized over the service period of December 31, 2016 through March 31, 2017, the final acceptance date of the offer. In 2017 and 2016 the participation rates of eligible employees in the employee share purchase plan were 92 and 85 percent, respectively. Details related to the employee share purchase plan are provided in the table below.

Employee share purchase plan			
Performance measurement period	2017	2016	2015
Total shareholder return performance target achieved	≥12%	≥12%	<12%
Employee rebate offered, NOK	12 500	12 500	6 250
Share purchase plan compensation			
	2017	2016	
Award share price, NOK	48.40	34.53	
Number of shares issued, per employee	511	378	
Total number of shares issued to employees	1 729 735	1 184 274	
Compensation expense related to the award, NOK thousand	41 496	21 293	

Employee benefit expense

The average number of employees in Hydro for 2017 and 2016 was 18,422 and 12,924, respectively. As of year end 2017 and 2016, Hydro employed 34,625 and 12,911 people, respectively. Employees in joint operations are not included. The specification of employee benefit expenses, including employee benefits in joint operations, is given in the table below.

Employee benefit expense

Amounts in NOK million	2017	2016
Salary	10 434	7 407
Social security costs	1 660	1 183
Other benefits	400	316
Pension expense (note 36)	791	579
Total	13 285	9 485

Note 18 - Depreciation and amortization expense**Specification of depreciation and amortization by asset category**

Amounts in NOK million	2017	2016
Buildings	930	790
Machinery and equipment	5 004	4 146
Intangible assets	222	105
Depreciation and amortization expense	6 156	5 041

Note 19 - Impairment of non-current assets

All Cash Generating Units (CGUs) or fixed assets that are not part of a CGU are reviewed for impairment indicators at each balance sheet date with the exception of goodwill and assets from recent acquisitions where the allocation of fair values is provisionally determined as of the balance sheet date. Tests for impairment have been performed for the CGUs where impairment indicators have been identified. The recoverable amount for these units have been determined estimating the Value in Use (VIU) of the asset and/or, if appropriate, its fair value less cost of disposal (FV), and comparing the highest of the two against the carrying value of the CGUs. The calculation of VIU has been based on management's best estimate, reflecting Hydro's business planning process. The discount rates are derived as the weighted average cost of capital (WACC) for a similar business in the same business environment. For Hydro's businesses the pre-tax nominal discount rate is estimated at between 8.75 and 16.0 percent (2016: 9.0-17.25 percent), with the higher rates applicable for assets in Brazil. Impairment losses have been recognized where the recoverable amount is less than the carrying value.

Goodwill and intangible assets with indefinite life are required to be tested for impairment annually, in addition to any tests required when impairment indicators are determined to be present. Hydro has elected to do the annual impairment test of goodwill in the fourth quarter. The carrying amount is not recoverable if it exceeds the higher of the asset's or cash generating unit's fair value less costs to sell or the value in use. An impairment loss is recognized in the amount that the carrying value exceeds its recoverable amount. Losses are reversed in the event of a subsequent increase in the recoverable amount of an impaired asset, however, impairment of goodwill is not reversed.

Amounts in NOK million	2017	2016
Classification by asset category		
Impairment losses		
Property, plant and equipment	5	428
Intangible assets	-	5
Total impairment of non-current assets	5	433

Classification by segment

Impairment losses		
Bauxite & Alumina	-	294
Rolled Products	-	-
Primary Metal	-	(6)
Metal Markets	-	-
Extruded Solutions	5	-
Energy	-	5
Other activities	-	140
Total impairment of non-current assets	5	433

Goodwill is allocated to CGUs or groups of CGUs as shown in the following table:

Amounts in NOK million	2017	2016
Bauxite & Alumina Operations	2 572	2 740
Remelters sector (Metal Markets)	388	396
Total goodwill	2 960	3 135

In addition, an amount of goodwill is provisionally recognized related to the acquisition of Sapa, see note 6 Significant subsidiaries and changes to the consolidated group. The amount of goodwill finally recognized is likely to change as the values of assets and liabilities are determined. The allocation of goodwill to CGUs or groups of CGUs within the segment Extruded Solutions will be determined when the amount of goodwill is determined. The goodwill related to Extruded Solutions has not been tested for impairment in 2017.

Goodwill in Bauxite & Alumina is allocated to a CGU consisting of the Alunorte alumina refinery, the main bauxite source Paragominas and certain related activities. The recoverable amount has been determined based on a VIU calculation, and amounts to about NOK 42 billion. The value significantly exceeds the carrying value of NOK 27 billion. The calculation used cash flow forecasts in BRL based on internal plans approved by management covering a five-year period. All significant price assumptions are internally derived based on external references. Cash flows have been projected for the following 35 years based on the five-year detailed forecast period using Hydro's long-term assumptions for alumina prices and key raw material prices. The CGU is expected to remain in operation for at least the 40-year period. Improvements expected from the currently implemented improvement programs and certain planned equipment replacements are included. Further improvements are not included in the cash flow forecasts. Cash flows beyond the five-year period are inflated by the expected long-term inflation levels in Brazil and the main western economies.

The main assumptions, expressed in real 2017 values, to which the test is sensitive are shown in the table below:

	Assumptions	
	2018	Long-term
Exchange rate BRL/USD	3.25	3.47
Alumina price (USD/mt)	357	398
Production volume alumina (million mt)	6.4	6.4
Discount rate nominal, pre-tax	16.0 %	16.0 %

Significant cash flows are denominated in US dollars. These are translated to BRL at a rate of 3.25 for 2018 with an increase to a nominal rate of 4.10 in 2025, equal to a real exchange rate of 3.47. For future periods the exchange rate is projected with a rate development reflecting the inflation difference of 2.5 percentage points between international inflation and the higher expected Brazil specific inflation.

If one of the key parameters were changed with no changes to the other assumptions, the estimated recoverable amount for the CGU would equal the carrying amount with the following long-term real 2017 assumptions over the entire 40-year period:

	% change	Value
Exchange rate BRL/USD	(15%)	2.77
Alumina price (USD/mt)	(9%)	326
Production volume alumina (million mt)	(15%)	5.4
Discount rate (% point)	42 %	22.75%

For Metal Markets the impairment test on goodwill has been based on approved business plan for the next year, managements best estimate of cash flows for the following four years and extrapolated to a 15 years cash flow estimate, providing a VIU exceeding the carrying value.

Hydro also has indefinite life intangible assets of NOK 138 million related to the Vigeland power plant in Norway. This CGU is tested for impairment using a FV approach based on observed transaction values for power production assets in the Nordic region. The recoverable amount, estimated as a post-tax fair value, exceeds the carrying amount significantly.

In 2017 we identified an impairment indicator for the primary aluminium plant at Husnes, Norway. The recoverable amount was determined as the VIU based on Hydro's internal assumptions for aluminium prices, raw material prices including energy, currency exchange rates and timing of cash flows. Contract prices are used for raw materials and energy for periods covered by specific contracts with external suppliers. For periods where such consumption is not yet contracted, or where internal supply of such items as electric power and alumina is expected, estimated market prices are used. Power prices above the currently observed market prices combined with CO₂ compensation to energy intensive industry is assumed. Hydro has decided to upgrade and restart the closed line, which is assumed in the test. The recoverable amount exceeded the carrying amount of about NOK 0.4 billion significantly.

In 2016 we identified impairment indicators for two of Primary Metal's smelters, the Husnes smelter in Norway, and the Slovak smelter Slovalco. VIU for Slovalco, which had a carrying value of PPE of about NOK 1.1 billion, exceeded carrying amount by about 80 percent. Coverage for the Husnes plant, which had a carrying value of PPE of about NOK 0.4 billion, was more limited. No impairment write-down was recognized for these plants.

The carrying amount of CAP, an alumina refinery under construction in Para, Brazil, was reviewed during 2016. The project is currently on hold due to the alumina market balance, and Hydro has reviewed the design that is basis for the current engineering work capitalized. It was determined that a better design, improving the cost position when built, can be developed. About 40 percent of the carrying value of the project was thus written down as impaired, resulting in a charge of NOK 285 million.

An industrial park in Hanover, Germany, was assessed for remediation need and future use in 2016. Hydro has currently no operational activity in the park. Industrial activities has resulted in remediation needs with an estimated cost of about NOK 90 million, recognized as an asset retirement obligation increasing the carrying value of the site to NOK 140 million. As the site has limited sales value, the amount was immediately written down to zero. The site is part of Other activities.

In addition certain assets were written down as impaired due to physical damage or obsolescence both in 2017 and 2016.

See note 5 Critical accounting judgment and key sources of estimation uncertainty for additional information about impairment testing. Impairment assessment for investments in associates, joint ventures and other financial assets are discussed in the specific notes.

Note 20 - Research and development

Total expensed research and development cost was NOK 500 million in 2017 and NOK 370 million in 2016. Research and development activities are aiming at making production of aluminium more efficient including further improving the operational and environmental performance of Hydro's electrolysis technology. The Karmøy Technology Pilot will be important for verifying the next generation electrolysis technology at an industrial level, which is necessary for reducing the risk of implementing new technology. The Karmøy Technology Pilot started production in January 2018. A significant proportion of the research and development means are also used for further developing the production processes and products within casting and alloy technology as well as extruded solutions, rolled products and alumina.

To the extent development costs are directly contributing to the construction of a fixed asset, the development costs are capitalized as part of the asset provided all criteria for capitalizing the cost are met. Costs incurred during the preliminary project stage, as well as maintenance costs, are expensed as incurred. The capitalized development costs were NOK 24 million in 2017 and NOK 18 million in 2016.

Note 21 - Operating leases

Future minimum lease payments due under non-cancellable operating leases are as follows:

Amounts in NOK million	Less than 1 year	1-5 years	Thereafter	Total
Operating lease obligation 2017	771	1 283	284	2 338
Operating lease obligation 2016	144	368	253	766

Operating lease expense for office space, machinery and equipment amounts to NOK 311 million for 2017 and NOK 202 million for 2016.

Note 22 - Financial income and expense

Amounts in NOK million	2017	2016
Interest income	322	468
Dividends received and net gain (loss) on securities	159	105
Financial income	481	574
Interest expense	(378)	(362)
Capitalized interest	76	97
Net foreign exchange gain (loss)	(875)	2 266
Accretion	(368)	(409)
Other	(51)	(41)
Financial expense	(1 596)	1 552
Financial income (expense), net	(1 114)	2 126

Accretion represent the period's interest component for pension obligations, asset retirement obligations and other liabilities measured as present value of future expected payments.

Note 23 - Income taxes

Amounts in NOK million	2017	2016
Income before tax		
Norway	6 954	4 627
Other countries	4 121	4 510
Total	11 075	9 137
Current taxes		
Norway	1 715	690
Other countries	860	1 297
Current income tax expense	2 575	1 988
Deferred taxes		
Norway	(315)	100
Other countries	(369)	464
Deferred tax expense (benefit)	(685)	563
Total income tax expense (benefit)	1 891	2 551

Components of deferred taxes

Origination and reversal of temporary differences	(311)	(427)
Change in deferred tax asset from tax loss carryforwards	269	709
Effect of tax rate changes	(171)	(6)
Net change in unrecognized deferred tax assets	(207)	288
Tax (expense) benefit allocated to Other comprehensive income	(265)	(1)
Deferred tax expense (benefit)	(685)	563

Reconciliation of tax expense to Norwegian nominal statutory tax rate

Amounts in NOK million	2017	2016
Expected income taxes at statutory tax rate ¹⁾	2 658	2 284
Hydro-electric power surtax ²⁾	708	554
Equity accounted investments	(372)	(246)
Foreign tax rate differences	(142)	305
Favorable decisions in tax disputes ³⁾	(108)	(602)
Tax free income	(601)	(209)
Deferred tax asset not recognized and expired tax loss carryforwards	(144)	221
Other tax benefits and deductions with no tax benefits, net ⁴⁾	(108)	243
Income tax expense (benefit)	1 891	2 551

1) Norwegian nominal statutory tax rate is 24 percent. It is changed to 23 percent from 2018.

2) A surtax of 34.3 percent is applied to taxable income, with certain adjustments, for Norwegian hydro-electric power plants. The surtax comes in addition to the normal corporate taxation. The tax rate is changed to 35.7 percent from 2018.

3) The Norwegian Tax Appeal Board has in both 2017 and 2016 ruled in favor of Hydro in tax disputes. This relates to losses on refinancing of subsidiaries that were denied deduction for tax purposes. The 2017 decision relates to losses incurred in 2009-2011 while the 2016 decision relates to losses incurred in 2008.

4) A US tax reform was enacted in December 2017 and resulted in significant changes to existing tax law in several areas, including corporate tax rates. From 2018 the corporate income tax rate (federal) is 21 percent compared to 35 percent in 2017. The reduced tax rate has resulted in a decrease in the deferred tax liability and hence a positive effect on the income tax expense in 2017. The effect is included in the line Other tax benefits and deductions with no tax benefits, net.

The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of December 31, 2017 and December 31, 2016:

Amounts in NOK million	Assets 2017	Liabilities 2017	Assets 2016	Liabilities 2016
Inventory valuation	375	(558)	246	(304)
Accrued expenses	1 477	(278)	1 005	(293)
Property, plant and equipment	10 097	(15 936)	5 003	(9 554)
Intangible assets	1 538	(2 368)	1 052	(1 156)
Pensions	2 747	(1 274)	2 415	(1 078)
Derivatives	536	(145)	369	(120)
Other	162	(724)	352	(792)
Tax loss carryforwards	5 187		3 536	
Subtotal	22 120	(21 282)	13 979	(13 296)
Of which not recognized as tax asset	(2 743)		(1 501)	
Gross deferred tax assets (liabilities)	19 377	(21 282)	12 477	(13 296)
Net deferred tax assets (liabilities)		(1 905)		(819)
Reconciliation to balance sheets		2017		2016
Deferred tax assets		1 617		1 566
Deferred tax liabilities		3 522		2 384
Net deferred tax assets (liabilities)		(1 905)		(819)

Recognition of net deferred tax asset is based on expected taxable income in the future.

At the end of 2017, Hydro had tax loss carryforwards of NOK 16,853 million, mainly in Brazil, Spain, Australia, Italy and Belgium. The majority of the tax loss carryforwards expire after 2022. Of the total, NOK 13,571 million is without expiration. Tax assets are recognized for about 49 percent of the tax losses.

Note 24 - Short-term investments

Amounts in NOK million	2017	2016
Bank, time deposits	-	3 350
Equity securities	315	312
Debt securities	738	756
Other	257	194
Total short-term investments	1 311	4 611

Note 25 - Trade and other receivables

Amounts in NOK million	2017	2016
Trade receivables	16 591	8 676
VAT and other sales taxes	2 008	1 478
Other receivables	1 438	759
Allowance for credit losses	(54)	(29)
Trade and other receivables	19 983	10 884

Of total trade receivables at year end 2017, about nine percent were past due, with the majority within 30 days. Extruded Solutions has a higher share of overdue receivables than the average of the other business areas.

Note 26 - Inventories

Amounts in NOK million	2017	2016
Spare parts and raw materials	5 990	3 654
Work in progress	5 052	3 666
Alumina	1 189	803
Aluminium casthouse products	4 393	2 903
Fabricated products	4 249	1 355
Inventories	20 873	12 381

Raw materials includes purchased raw materials such as bauxite, caustic soda, oil, coal and other input factors used in the production; however, excluding alumina and aluminium intended for use in Hydro's production of other products. All amounts are net of any write-downs.

Note 27 - Other non-current assets

Amounts in NOK million	2017	2016
Equity securities	969	1 132
Other securities	537	536
Employee loans	100	105
Derivative instruments	268	47
Income taxes, VAT and other sales taxes	1 678	1 882
Other receivables	857	607
Other non-current assets	4 410	4 309

Note 28 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
Cost					
December 31, 2015	1 110	23 291	76 039	4 101	104 541
Additions	11	538	4 033	4 369	8 950
Disposals	(13)	(848)	(1 615)	(3)	(2 480)
Transfers	-	602	1 505	(2 107)	-
Foreign currency translation effect	(47)	930	3 630	484	4 997
December 31, 2016	1 060	24 512	83 592	6 844	116 009
Additions	4	519	2 602	4 212	7 338
Acquisitions through business combinations	738	3 198	9 102	1 014	14 052
Disposals	(13)	(209)	(1 881)	(57)	(2 162)
Transfers ¹⁾	-	4 036	3 531	(7 567)	-
Foreign currency translation effect	101	(178)	(462)	(82)	(621)
December 31, 2017	1 891	31 878	96 484	4 363	134 616
Accumulated depreciation and impairment					
December 31, 2015	(5)	(10 679)	(42 683)	-	(53 367)
Depreciation for the year	-	(790)	(4 146)	-	(4 936)
Impairment losses	-	(138)	(10)	(285)	(434)
Reversal of impairment loss	-	-	6	-	6
Disposals	-	650	1 516	-	2 166
Transfers	-	(11)	11	-	-
Foreign currency translation effect	-	(131)	(567)	(13)	(710)
December 31, 2016	(5)	(11 098)	(45 873)	(298)	(57 275)
Depreciation for the year	-	(930)	(5 004)	-	(5 934)
Impairment losses	(2)	-	(3)	-	(5)
Disposals	-	128	1 696	-	1 824
Transfers ¹⁾	-	(719)	719	-	-
Foreign currency translation effect	-	(3)	(221)	18	(206)
December 31, 2017	(8)	(12 621)	(48 686)	(280)	(61 596)
Carrying value					
December 31, 2016	1 055	13 414	37 719	6 545	58 734
December 31, 2017	1 882	19 257	47 797	4 083	73 020

1) Transfers includes reclassification of certain industrial structures following renewed assessment.

The table above includes assets held under finance lease arrangements by a total of NOK 739 million, which are mainly included in Machinery and equipment.

Note 29 - Intangible assets

Amounts in NOK million	Intangible assets under development	Mineral rights	Waterfall rights	Software	Acquired sourcing contracts	Other intangibles assets	Total
Cost							
December 31, 2015	233	747	139	940	1 036	983	4 078
Additions	84	-	-	70	-	33	186
Disposals	-	-	-	(6)	-	(19)	(25)
Transfers	(27)	-	-	27	-	-	-
Foreign currency translation effect	-	133	-	9	184	5	331
December 31, 2016	289	880	139	1 041	1 220	1 001	4 570
Additions	65	-	-	84	-	17	167
Acquisitions through business combinations	2	-	-	250	-	2 645	2 897
Disposals	-	-	-	(88)	-	(30)	(118)
Transfers	(95)	-	-	94	-	-	-
Foreign currency translation effect	1	(54)	-	38	(75)	150	60
December 31, 2017	263	826	139	1 420	1 146	3 783	7 576
Accumulated amortization and impairment							
December 31, 2015	-	-	-	(740)	(353)	(597)	(1 690)
Amortization for the year ¹⁾	-	-	-	(84)	(68)	(21)	(172)
Impairment loss	-	-	-	-	-	(5)	(5)
Disposals	-	-	-	5	-	10	16
Foreign currency translation effect	-	-	-	3	(70)	23	(44)
December 31, 2016	-	-	-	(815)	(491)	(589)	(1 895)
Amortization for the year ¹⁾	-	-	-	(132)	(73)	(90)	(295)
Disposals	-	-	-	87	-	5	93
Foreign currency translation effect	-	-	-	(30)	33	(38)	(35)
December 31, 2017	-	-	-	(890)	(531)	(713)	(2 133)
Carrying value							
December 31, 2016	289	880	139	226	729	412	2 675
December 31, 2017	263	826	139	530	615	3 070	5 443

1) Amortization of a sourcing contract is reported as Raw material and energy expense in the income statement.

Mineral rights are not depreciated until extraction of the resources starts. Waterfall rights have indefinite life and are thus not depreciated.

Note 30 - Goodwill

Amounts in NOK million	Extruded Solutions	Bauxite & Alumina	Metal Markets	Total
Cost				
December 31, 2015	-	2 325	408	2 734
Foreign currency translation effect	-	414	(13)	402
December 31, 2016	-	2 740	396	3 135
Acquisitions through business combinations	4 119	-	-	4 119
Foreign currency translation effect	190	(168)	(8)	14
December 31, 2017	4 309	2 572	388	7 269

See note 19 Impairment of non-current assets for information about the annual impairment testing of goodwill.

The goodwill in Extruded Solutions relates to the acquisition of Sapa, see note 6 Significant subsidiaries and changes to the consolidated group. The amount of goodwill in this transaction is provisionally recognized, and is likely to change as the values of assets and liabilities are determined.

Note 31 - Investments in joint arrangements and associates

Hydro is engaged in various arrangements on a joint basis with other companies. In assessing whether joint control exists for these arrangements we evaluate the legal framework and contracts governing the arrangement combined with an assessment of which decisions that significantly influence the return from the arrangement. Arrangements owned on a 50/50 basis and/or governed by unanimous decisions constitute the majority of our joint arrangements.

Most of our joint arrangements are joint production facilities supplying metal and other products for Hydro's value chain. Hydro assesses whether joint arrangements are joint operations where Hydro has a direct interest in the assets and direct liability to settle obligations, directly or indirectly, or a joint venture where we have an interest in the net assets of the joint arrangement. In this assessment we evaluate the contracts governing the arrangement and the legal framework for the type of entity in which the arrangement is operated. Hydro is engaged in both joint arrangements that are considered joint ventures, and arrangements that are concluded to be joint operations.

Joint operations

Of our joint operations, two are classified as joint operations based on the legal form of the operations. These are Tomago, an aluminium smelter in Australia, and Skafså ANS, a power producer in Norway. Another two arrangements are classified as joint operations based on the contractual arrangements whereby all output is sold to the shareholders in proportion to their ownership interest at a cost based price formula. The major or sole sources of cash inflows for the joint arrangements are the owners, who are legally obliged to cover production costs. These are Aluminium Norf GmbH (Alunorf), a large rolling mill in Germany, and Aluminium & Chemie Rotterdam B.V., Aluchemie, an anode producer in the Netherlands.

Joint ventures

The following joint ventures are considered material for Hydro:

Qatar Aluminium Ltd. (Qatalum) is a primary aluminium smelter with a dedicated power plant located in Qatar. Qatalum has an annual production capacity of about 600,000 mt of liquid metal. Qatalum is owned by Hydro and Qatar Petroleum Ltd., (50 percent each). Qatalum has a tax holiday from the start of production, expiring in 2020. According to the joint venture agreement it is the generally applicable tax rate that will apply after 2020. A tax reform came into effect from 2010, which introduced a generally applicable corporate income tax rate of 10 percent. A different tax rate may apply to entities with oil and gas operations or where the activities are carried out under an agreement with the government or entities owned by the government, unless the agreement specifies another tax rate. It is Hydro's position that the generally applicable income tax rate, currently at 10 percent, shall apply to Qatalum after the expiry of the tax holiday.

Hydro is committed to sell fixed quantities of alumina and purchase all products from Qatalum at market based prices. Purchases of metal from Qatalum amounted to NOK 11,363 million in 2017 and NOK 9,346 million in 2016. Related payables amounted to NOK 1,051 million at the end of 2017 and NOK 1,017 million at the end of 2016. Sales from Hydro to Qatalum amounted to NOK 2,222 million in 2017 and NOK 1,892 million in 2016, primarily alumina. Related receivables amounted to NOK 128 million and NOK 337 million at the end of the periods. Qatalum is part of Primary Metal.

Sapa AS, a world leader in aluminium solutions delivering products within extrusions, building systems and precision tubing, was established in September 2013 as a joint venture between Hydro and Orkla ASA, a listed company in Norway. On October 2, 2017, Hydro acquired the additional 50 percent owned by Orkla ASA. Following completion of the transaction, Hydro owns 100 percent of the parent company Sapa AS, which has been renamed Hydro Extruded Solutions AS. All activities in the former Sapa group have been included in Hydro as business area Extruded Solutions. For further information about the transaction, please see note 6 Significant subsidiaries and changes to the consolidated group.

Hydro issued certain guarantees towards Sapa as part of establishing the company, primarily related to tax exposure. A provision of about NOK 100 million was recognized for these guarantees during the time of joint venture. Hydro sold metal

products to Sapa at market prices. Sales from Hydro to Sapa amounted to NOK 3,916 million in the period up until completion of the acquisition, from January 1, 2017 to October 2, 2017, and NOK 4,650 million in 2016. Hydro's accounts receivables amounted to NOK 616 million at the end of 2016.

The table below summarizes key figures for these joint ventures for 2017 and 2016. The figures are on the same basis as used for inclusion in the group financial statements. Fair value adjustments from Hydro's contribution of assets and businesses to the joint ventures are included. Intercompany transactions and balances are included, and internal profit and loss in inventory and fixed assets purchased from group companies are not eliminated in the numbers below. All amounts are for the joint ventures on 100 percent basis. The 2017 income and expense amounts for Sapa are for the joint venture period January 1, 2017 to October 2, 2017. All balance sheet amounts are at the end of the years 2017 and 2016.

Amounts in NOK million	Qatalum		Sapa	
	Year/year ended	2016	Period owned	2016
	2017		2017	
Revenue	11 645	9 577	43 616	53 327
Depreciation, amortization and impairment	2 301	2 284	974	1 319
Earnings before financial items and tax	1 963	687	2 240	2 420
Financial income (expense), net ¹⁾	(472)	(495)	(107)	(52)
Income tax expense	-	-	(533)	(583)
Net income (loss)	1 491	192	1 600	1 785
Other comprehensive income	194	210	(168)	(857)
Total comprehensive income	1 685	403	1 432	928
Cash and cash equivalents	3 133	3 054	-	671
Other current assets	4 168	4 160	-	12 546
Non-current assets	30 940	34 451	-	12 722
Current financial liabilities	1 854	1 385	-	863
Non-current financial liabilities	12 931	15 516	-	124
Other liabilities	1 426	1 843	-	11 152
Net assets	22 031	22 921	-	13 801
Hydro's share of net assets	11 015	11 461	-	6 873
Goodwill in Hydro's investment	-	-	-	1 526
Accumulated elimination of internal gain in inventory	(85)	(39)	-	(26)
Carrying value of Hydro's equity investment	10 930	11 421	-	8 374
Loans extended to joint ventures	-	-	-	-
Total investment	10 930	11 421	-	8 374

1) Financial income (expense), net includes interest expense for Qatalum with NOK 467 million and NOK 481 million for 2017 and 2016, respectively. Interest expense for Sapa is included with NOK 87 million for the period January 1, 2017 to October 2, 2017, and NOK 183 million for 2016.

As part of the acquisition of Sapa, Hydro acquired an ownership interest in Technal Middle East W.L.L, a joint venture owned 50 percent each by Hydro and Bahrain Aluminium Extrusion Company B.S.C.

Hydro also holds interests in certain associates accounted for using the equity method. In November 2017, Hydro purchased 26 percent of Corvus Energy Inc., a Canadian company producing battery solutions for ships. The following table provides a summary of changes in carrying value for Hydro's joint ventures and associates.

Amounts in NOK million	Qatalum	Sapa	Other JVs	Associates	Total
December 31, 2015	12 222	7 913	(12)	15	20 138
Hydro's share of net income (loss)	96	889	13		998
Hydro's share of other comprehensive income	105	(427)			(322)
Dividends and other payments received by Hydro	(836)				(836)
Companies acquired/(sold), net				(2)	(2)
Amortization				(1)	(1)
Changes elimination of internal gain in inventory	17	(1)			16
Foreign currency translation and other	(184)				(184)
December 31, 2016	11 421	8 374	-	12	19 807
Hydro's share of net income (loss)	746	800	13	(4)	1 554
Hydro's share of other comprehensive income	97	(84)			13
Dividends and other payments received by Hydro	(747)	(1 500)			(2 247)
Companies acquired/(sold), net			227	39	266
Amortization				(3)	(3)
Changes elimination of internal gain in inventory	(46)	25			(21)
Derecognized at acquisition of control		(7 615)			(7 615)
Foreign currency translation and other	(541)			8	(533)
December 31, 2017	10 930	-	240	52	11 221

Note 32 - Trade and other payables

Amounts in NOK million	2017	2016
Accounts payable	15 178	7 439
Payroll and value added taxes	2 976	1 357
Accrued liabilities and other payables	1 407	1 311
Trade and other payables	19 561	10 108

Note 33 - Short and long-term debt

Amounts in NOK million	2017	2016
Bank loans and overdraft facilities	7 595	2 510
Other interest-bearing short-term debt	276	294
Current portion of long-term debt	373	479
Bank loans and other interest-bearing short-term debt	8 245	3 283

Amounts in NOK million	2017	2016
USD	860	1 305
SEK	3 007	-
NOK	4 497	1 500
Other	38	-
Total unsecured loans	8 402	2 805
Finance lease obligations	983	1 071
Outstanding debt	9 385	3 875
Less: Current portion	(373)	(479)
Total long-term debt	9 012	3 397

Repayments of long-term debt including interest

Amounts in NOK million	Unsecured loans	Other	Interest	Total
2018	333	40	236	609
2019	2 780	38	228	3 046
2020	1 281	38	137	1 455
2021	2	38	127	166
2022	3 002	41	124	3 166
Thereafter	1 004	789	430	2 223
Total	8 402	983	1 281	10 667

Reconciliation of liabilities arising from financing activities

Amounts in NOK million	Long-term debt	Bank loans and other interest-bearing short-term debt	Total liabilities from financing activities
December 31, 2016	3 397	3 283	6 679
Cash flows	5 934	935	6 869
Non-cash changes:			
Net change in current balance	(410)	410	-
Business combinations	64	3 556	3 620
Amortizations	9	-	9
Foreign currency effects	18	61	79
December 31, 2017	9 012	8 245	17 257

Note 34 - Provisions

Amounts in NOK million	2017			2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Environmental clean-up and asset retirement obligations (ARO)	384	4 201	4 585	532	3 197	3 730
Employee benefits	1 048	714	1 762	552	446	998
Indirect taxes	246	200	446	-	102	102
Onerous contracts	118	208	326	100	310	410
Other	500	505	1 005	232	330	562
Total provisions	2 296	5 828	8 124	1 417	4 384	5 801

The following table includes a specification of changes to provisions for the year ending December 31, 2017 and the expected timing of cash outflows relating to the provisions.

Amounts in NOK million	Environ- mental clean- up and ARO	Employee benefits	Indirect taxes	Contracts	Other	Total
Specification of change in provisions						
December 31, 2016	3 730	998	102	410	562	5 801
Business combinations	555	590	102	-	426	1 673
Additions	432	814	249	27	288	1 809
Used during the year	(187)	(682)	-	(118)	(229)	(1 216)
Reversal of unused provisions	(116)	(10)	-	-	(46)	(173)
Accretion expense and effect of change in discount rate	171	9	-	7	-	187
Foreign currency translation	-	44	(6)	-	5	42
December 31, 2017	4 585	1 762	446	326	1 005	8 124
Timing of cash outflows						
2018	384	1 048	246	118	500	2 296
2019-2022	1 839	400	50	208	251	2 748
Thereafter	2 362	313	150	-	254	3 079
	4 585	1 762	446	326	1 005	8 124

Provisions for environmental clean-up and asset retirement obligations relate to production facilities currently in operation and facilities that are closed. The obligations relate to such actions as restoration or rehabilitation of industrial or mining sites, disposal of contaminated material and related activities. Hydro has provided for demolition of buildings and installations only where there is a legal or contractual obligation, or a specific decision to demolish, which is the case for few sites. The provision represents the present value of expected outflows at the times of expected payments. There is significant uncertainty both in the timing and amount of these remediation actions, as they are linked to future business decisions as well as decisions and approval by authorities in the jurisdictions we operate. Provisions are based on the current legal framework.

The most significant provisions relate to the following sites and issues. For Bauxite and Alumina's mine in Brazil we have obligations to remediate the tailing areas and mining sites, including reforestation of the area and monitoring and maintenance of the site after initial remediation. For Bauxite and Alumina's alumina refinery in Brazil we have obligations to remediate red mud deposits, including monitoring the contamination levels and other aspects after initial remediation. For Primary Metal's closed Kurri Kurri smelter site in Australia we have obligations to remediate certain contaminated areas at the site as well as securing appropriate deposit of spent pot lining and certain other waste material. The plan for remediation is not yet approved by the authorities. Renewed assessment of remediation methods and discussions with regulatory authorities resulted in an increase of NOK 183 million to the provision. Hydro also has obligations for remediation of contamination on site and in related areas related to historic industrial activities in Germany and Norway, reported in Other and eliminations. The more significant of these sites are the sites in Schwandorf and Hannover in Germany. For many of these provisions, there are no standard remediation methods available and cost is therefore uncertain. The provision also includes remediation of spent pot lining in all active smelters, site clearance for certain leased land as well as certain liabilities related to Norwegian power plant concessions to be reverted to the Norwegian Government.

Provisions for employee benefits relate to expected short-term performance bonus payments and short and long-term provisions for expected bonus payments that are based on the number of years of service, primarily for our European operations. Such bonuses are expected to be paid in periods between 10 to 50 years of service, or upon termination of employment.

Indirect taxes include taxes not related to taxable income, such as value added taxes, duties and property taxes. Provision for indirect taxes includes a charge related to a customs case in Germany.

Contracts comprise onerous contracts, and relate to rental of premises.

Other includes insurance provisions related to insurance contracts issued by Hydro's captive insurance company, Industriforsikring AS, to external parties including associates and joint arrangements, provisions for legal and other disputes, and certain liabilities related to representation and warranty provisions related to sale of businesses. Sapa Profiles Inc. (SPI), a Portland, Oregon based subsidiary of Hydro Extruded Solutions AS (formerly Sapa AS) is under investigation by the United

States Department of Justice (DOJ) Civil and Criminal Divisions regarding certain aluminum extrusions that SPI manufactured from 1996 to 2015, including extrusions that were delivered to a supplier to NASA. SPI is cooperating fully in these investigations. The investigations are currently ongoing, and, at this point, the outcome of the investigations and of any identified quality issues, including financial consequences, is uncertain. SPI is also subject to proceedings regarding a potential debarment as a federal government contractor. Additional cost beyond the provision for these liabilities are possible. As part of the share purchase agreement for Sapa, the parties have agreed that Orkla ASA shall indemnify Hydro for 50 percent of any liability in relation to this case.

For Extruded Solutions, our analysis of the acquisition date liabilities is not yet completed, see note 6 Significant subsidiaries and changes to the consolidated group.

Note 35 - Contingent liabilities and contingent assets

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. See note 5 Critical accounting judgment and key sources of estimation uncertainty for a discussion of how such items are assessed and measured. Where Hydro considers there is a current obligation based on a past event, and payment or remediation actions is probable, a provision is established, see note 34 Provisions. Where Hydro considers an obligation to be possible, i.e. not probable yet not remote, it is disclosed as a contingent liability.

Hydro is involved in a significant number of tax cases related to various types of taxes. Hydro's widespread business operations expose us to several tax regimes and their interaction. We see that tax authorities challenge transfer prices to an increasing degree. Although Hydro currently has no significant transfer price disputes with tax authorities, our long value chain with a large number of internal transactions and business operations covering multiple tax jurisdictions expose us to such disputes, both related to prior and future transactions. Hydro's businesses in Brazil have a large portfolio of cases disputed by tax authorities, of which the majority relates to indirect taxes. This includes cases in the administrative and legal dispute systems with various background and risk of loss. In total known cases amount to about NOK 5.5 billion, of which about NOK 3.7 billion is considered possible. About half of those amounts are covered by tax indemnifications from acquisition. The final outcome of these cases is not expected until several years into the future, and is highly uncertain. Additional cases may be raised by tax authorities based on tax declarations for periods not yet assessed. Hydro has provided for individual tax cases where the risk of loss is considered above 50 percent. Provisions for indirect taxes are included in provisions disclosed in Note 34 Provisions, while provisions for income tax expenses are included in Taxes payable.

Hydro has environmental liabilities related to several sites and issues. Where remediation is acknowledged as Hydro's responsibility or a legal obligation is deemed to exist, a provision for the best estimate of costs to be incurred is established and disclosed in note 34 Provisions. For many of our industrial sites, in particular sites where operation is expected to continue indefinitely, remediation costs are difficult to assess. The precise need for remediation actions, their timing and cost has not yet been planned, and is thus uncertain. For some sites, the exact level of pollution may also be uncertain as ground and water are not sampled where no indication of contamination is identified. Obligations for historic contamination of sites and surrounding areas in addition to areas provided for may be identified and deemed Hydro's responsibility, whether related to currently owned or used sites, or sites we previously have been owned and/or used. The cost of remediation of any additional contamination deemed Hydro's responsibility is uncertain.

Hydro is also exposed to increased product warranty responsibilities, both as result of contractual commitments and in response of liability under background law. Product warranty may impose significant costs depending amongst other on the application of the product sold.

Hydro is also exposed to legal cases based on contractual or other basis, including warranties and representations given in relation to sale of businesses. Where a payment is probable, a provision for the likely amount is deducted from the recognized sales proceeds, or recognized as an expense at the later date when a payment is considered probable. Currently, Hydro has limited provisions related to such divestments.

Note 36 - Employee retirement plans

Hydro provides post-employment benefits covering a substantial portion of employees. Plans and benefit levels vary between companies and countries. In recent years, there has been a shift from traditional final salary defined benefit plans to defined contribution and contribution-oriented plans. Many defined benefit plans have been closed for new entrants, and in some defined benefit plans, large groups of employees have converted to defined contribution arrangements. Still, a number of employees continues to earn benefits under defined benefit plans, but many of these plans are heavily impacted by deferred members and pensioners.

Amounts in NOK million	2017				2016			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Pension expense								
Defined benefit plans	132	186	29	347	145	163	(3)	305
Defined contribution plans	153	-	100	253	86	-	41	127
Multiemployer plans	48	-	2	50	49	-	2	51
Termination benefits and other	44	3	41	87	29	(5)	27	51
Social security cost	49	-	4	53	46	-	-	46
Pension expense	425	189	177	791	355	158	67	579
Interest expense (income)	(2)	136	18	152	18	176	16	210
Remeasurement (gain) loss in other comprehensive income	(763)	(167)	(56)	(986)	(764)	596	1	(168)

Amounts in NOK million	2017				2016			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Recognized defined benefit assets and liability								
Defined benefit obligation major plans	(12 247)	(9 173)	(5 512)	(26 932)	(12 495)	(8 327)	(102)	(20 924)
Plan assets	13 189	-	5 343	18 532	12 624	-	102	12 727
Reimbursement rights	303	-	-	303	311	-	-	311
Liability other plans	(21)	(127)	(532)	(681)	(16)	(28)	(221)	(265)
Social security cost	(552)	-	(40)	(591)	(524)	-	-	(524)
Net defined benefit liability	673	(9 300)	(741)	(9 368)	(100)	(8 355)	(220)	(8 676)
Recognized prepaid pension	5 143	47	559	5 750	4 149	45	1	4 195
Recognized pension liability	(4 471)	(9 348)	(1 300)	(15 118)	(4 249)	(8 401)	(221)	(12 871)
Net amount recognized	673	(9 300)	(741)	(9 368)	(100)	(8 355)	(220)	(8 676)

Other plans include some minor plans in various entities and countries. These plans may be funded or unfunded. None of these plans are considered material, neither individually nor combined.

Amounts in NOK million	2017				2016			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Change in defined benefit obligation (DBO)								
Opening Balance	(12 495)	(8 327)	(102)	(20 924)	(13 044)	(8 116)	(92)	(21 252)
Current service cost	(127)	(186)	(8)	(321)	(139)	(163)	(1)	(302)
Past service cost and curtailment gain (loss)	-	-	(19)	(19)	-	-	4	4
Interest expense	(305)	(135)	(42)	(482)	(330)	(176)	(3)	(509)
Actuarial gain (loss) economic assumptions	(164)	103	(165)	(227)	199	(606)	(29)	(435)
Experience gain (loss)	(44)	68	16	41	77	11	-	88
Benefit payments	618	266	56	940	626	268	2	896
Termination benefits	(46)	-	-	(46)	(64)	-	-	(64)
Settlements	340	-	147	487	60	-	-	60
Business combinations	(29)	(220)	(5 184)	(5 433)	-	-	-	-
Divestments	4	-	-	4	119	-	-	119
Foreign currency translation	-	(741)	(211)	(952)	-	456	17	473
Closing Balance	(12 247)	(9 173)	(5 512)	(26 932)	(12 495)	(8 327)	(102)	(20 924)

Change in pension plan assets

Opening Balance	12 624	-	102	12 726	12 298	-	108	12 406
Interest income	312	-	41	353	317	-	4	321
Return on plan assets above (below) interest income	971	-	169	1 140	473	-	11	484
Company contributions	92	-	3	94	145	-	1	146
Benefit payments	(469)	-	(51)	(520)	(481)	-	(2)	(483)
Settlements	(340)	-	(147)	(487)	(60)	-	-	(60)
Business combinations	-	-	5 015	5 015	-	-	-	-
Divestments	-	-	-	-	(68)	-	-	(68)
Foreign currency translation	-	-	211	211	-	-	(20)	(20)
Closing Balance	13 189	-	5 343	18 532	12 624	-	102	12 726

Amounts in NOK million	2017				2016			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Analysis of the defined benefit obligation (DBO)								
Active members	(3 462)	(4 622)	(631)	(8 716)	(3 414)	(4 173)	-	(7 587)
Deferred members	(706)	(731)	(2 181)	(3 618)	(681)	(598)	(75)	(1 354)
Pensioners	(8 079)	(3 819)	(2 700)	(14 598)	(8 400)	(3 555)	(27)	(11 983)
Defined benefit obligation	(12 247)	(9 173)	(5 512)	(26 932)	(12 495)	(8 327)	(102)	(20 924)
Weighted average duration (years)	13.1	18.5			13.1	18.8		

Contributions to funded pension plans, benefit payments from unfunded pension plans, and social security tax imposed on such contributions and payments amounted to a cash outflow of about NOK 950 million for 2017 and about NOK 850 million for 2016. Hydro's cash impact is expected to be at a somewhat higher level in the coming year.

Hydro's main pension plans are offered in Norway and Germany. The plans are described below:

Norway

Hydro has closed the main defined benefit plans for new members, and the majority of employees are now covered by defined contribution plans that are based on salaries up to a maximum level subject to tax deduction. For additional salaries, employees earn retirement benefits in unfunded contribution based plans. The remaining employees are covered by defined benefit plans that offer benefits based on final salary level and the number of years in service, and include benefits for dependents.

Contributions to the plans providing benefits based on salaries up to a maximum level are subject to tax deduction. The plans

are funded; all vested benefits are required by law to be funded for such plans. Benefits based on salaries above this level are covered by unfunded plans. The main funded plans are managed by Norsk Hydros Pensjonskasse, a separate, regulated legal entity. Hydro's pension plans complement the public pension schemes in Norway. Plans providing benefits for salary levels above the tax deductible level have been closed for new members from January 1, 2017.

Effective January 1, 2017, Hydro increased contributions to defined contribution plans for most affected employees in Norway.

Hydro participates in a supplementary pension plan that entitles the majority of its Norwegian employees life-long benefits in addition to other pension benefits. The benefits are financed through a pooled arrangement by private sector employers (avtafestet pensjon, AFP) where also the Norwegian state contributes. The plan is a defined benefit plan with limited funding and where plan assets are not segregated. The information required to calculate the share of the plan and account for the plan as a defined benefit plan is not available from the plan administrator. Hydro therefore accounts for the plan as if it were a defined contribution plan. The annual contributions have increased since inception and are expected to increase further. The employer contributions are included in Multiemployer plans.

Significant actuarial assumptions for the main Norwegian defined benefit plans include:

Assumptions	Benefit obligation 2017	Benefit expense 2017	Benefit obligation 2016	Benefit expense 2016
Discount rate	2.40%	2.50%	2.50%	2.60%
Expected salary increase	2.25%	2.25%	2.25%	2.25%
Expected pension increase	1.00%	1.00%	1.00%	1.25%
Mortality basis	K2013	K2013	K2013	K2013

The discount rate is based on the yield on covered bonds (debt securities backed by cash flows from mortgages) issued in Norway. The market for covered bonds has developed in size and liquidity, and we deem this market to be sufficiently deep to serve as reference for the discount rate for our post-employment benefit plans in Norway.

The sensitivities shown in the table below have been calculated for the main Norwegian plans illustrating the effects of changing one assumption while keeping the other assumptions unchanged. Possible correlation between assumptions is not reflected in the calculations.

Sensitivities decrease (increase) benefit obligation year end Amounts in NOK million, except percent	2017	2017
Discount rate increase 0.5% point	6.2%	760
Salary increase 0.5% point	(1.2%)	(147)
Pension increase 0.5% point	(6.1%)	(748)
One year longer life all members	(4.4%)	(535)

The plan assets in the funded plans provided through Norsk Hydros Pensjonskasse were invested as follows at the end of 2017 and 2016:

Amounts in NOK million, except percent	2017	2017	2016	2016
Cash and cash equivalents	3.0%	393	3.5%	434
Equity instruments Norway	21.4%	2 767	20.2%	2 493
Equity instruments other countries	19.1%	2 463	17.6%	2 170
Debt instruments	32.1%	4 144	32.3%	3 980
Investment funds	6.0%	779	6.7%	822
Real estate	18.4%	2 379	19.8%	2 440
Total	100.0%	12 927	100.0%	12 340

Real estate consists of office buildings in the Oslo area. A share of the buildings are leased and occupied by Hydro. Investment funds are primarily private equity funds investing in unlisted companies across various industries in Europe, the US and Asia, and infrastructure funds investing in the UK, continental Europe and the US. Equity instruments are held through liquid funds invested in listed companies in Norway and globally. Debt instruments are mainly bond issues with maturities up to 10 years and investment grade rating.

Germany

In Germany, the majority of plan members are covered by defined benefit plans that offer benefits based on final salary level and the number of years in service. The main plans are unfunded. Hydro's main plans are closed for new entrants, and all new employees are now offered benefits under new defined contribution-oriented plans. These plans are unfunded and treated as defined benefit plans for financial reporting purposes.

Significant actuarial assumptions for the main German plans include:

	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Weighted-average assumptions	2017	2017	2016	2016
Discount rate	1.6%	1.6%	1.6%	2.3%
Expected salary increase	2.4%	2.4%	2.4%	2.8%
Expected pension increase	1.5%	1.5%	1.5%	1.7%
Mortality basis	RT 2005 G	RT 2005 G	RT 2005 G	RT 2005 G

The sensitivities shown in the table below have been calculated for the main German plans illustrating the effects of changing one assumption while keeping the other assumptions unchanged. Possible correlation between assumptions is not reflected in the calculations.

Sensitivities decrease (increase) benefit obligation year end	2017	2017
Amounts in NOK million, except percent		
Discount rate increase 0.5% point	8.5%	780
Salary increase 0.5% point	(2.2%)	(204)
Pension increase 0.5% point	(6.4%)	(584)
One year longer life all members	(5.3%)	(483)

Other

Other includes Hydro's post-employment benefits outside Norway and Germany. Following the acquisition of the Sapa Group, October 2, 2017, Extruded Solutions' post-employment benefit plans outside Norway and Germany are included here. Most employees affected are covered by defined contribution plans. Defined benefit plans relate largely to the UK and the US, and where the majority of the benefit obligation is financed and administered through independent pension trusts.

Note 37- Shareholders' equity

Share capital

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
December 31, 2015	2 068 998 276	(27 410 584)	2 041 587 692
Treasury shares issued to employees		1 306 424	1 306 424
December 31, 2016	2 068 998 276	(26 104 160)	2 042 894 116
Treasury shares issued to employees		1 803 232	1 803 232
December 31, 2017	2 068 998 276	(24 300 928)	2 044 697 348

The share capital of Norsk Hydro ASA as of December 31, 2017 and 2016 was NOK 2,271,760,107 consisting of 2,068,998,276 ordinary shares at a par value of NOK 1.098 per share. All shares have equal rights and are freely transferable.

Treasury shares

The treasury shares may, pursuant to the decision of the General Meeting at the time these shares were acquired, be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors.

The treasury shares amount per December 31, 2017 of NOK 810 million was comprised of NOK 27 million share capital and NOK 783 million retained earnings.

Change in Other components of equity

The table below specifies the changes in Other components of equity for 2017 and 2016.

Amounts in NOK million	2017	2016
Items that will not be reclassified to income statement:		
Remeasurement postemployment benefits		
January 1	22	(140)
Remeasurement postemployment benefits during the year	986	168
Reclassified to retained earnings on divestment of subsidiaries	(14)	(23)
Deferred tax offset	(221)	16
December 31	773	22
Remeasurement postemployment benefits equity accounted investments		
January 1	(11)	30
Remeasurement postemployment benefits during the year	(2)	(41)
Reclassified to retained earnings on divestment of equity accounted investments	13	-
December 31	-	(11)
Items that will be reclassified to income statement:		
Currency translation differences		
January 1	(467)	(4 581)
Currency translation differences during the year	(1 394)	4 114
Reclassified to Net income on liquidation of foreign operation	8	-
December 31	(1 854)	(467)
Unrealized gain (loss) on available-for-sale securities		
January 1	16	62
Period unrealized loss on available-for-sale securities	(266)	(71)
Tax expense	11	25
December 31	(239)	16
Cash flow hedges - See note 14 Derivative instruments and hedge accounting		
January 1	(158)	(273)
Period gain recognized in Other comprehensive income	149	39
Reclassification of hedging gain (loss) to Net income	79	117
Tax expense	(55)	(41)
December 31	15	(158)
Other components of equity in equity accounted investments		
January 1	769	1 050
Period gain (loss) recognized in Other comprehensive income	15	(272)
Reclassified to Net income on divestment of equity accounted investments	(751)	(9)
December 31	33	769
Total other components of equity attributable to Hydro shareholders as of December 31	80	1 224
Total other components of equity attributable to non-controlling interests as of December 31	(1 352)	(1 055)

Earnings per share

Basic and diluted earnings per share is computed using Net income attributable to Hydro shareholders and the weighted average number of outstanding shares in each year. There are no significant diluting elements. The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 2,044,105,404 for 2017 and 2,042,481,930 for the year 2016.

Hydro's outstanding founder certificates and subscription certificates entitle the holders to participate in any share capital increase, provided that the capital increase is not made in order to allot shares to third parties as compensation for their transfer of assets to Hydro. These certificates represent dilutive elements for the earnings per share computation.

Note 38 - Capital management

Hydro's capital management policy is to maximize value creation over time, while maintaining a strong financial position and an investment grade credit rating. In October 2017 Hydro acquired Orkla's 50 percent share in Sapa. The transaction was financed with surplus cash and bond financing. During 2017 net cash provided by operating activities was sufficient to cover net cash used in investing activities.

Credit rating

To secure access to capital markets at attractive terms and remain financially solid, Hydro aims to maintain an investment grade credit rating from the leading agencies, Standard & Poor's (current rating BBB) and Moody's (current rating Baa2), both with stable outlook. Hydro targets, over the business cycle, a ratio of Funds from operations to Adjusted net cash (debt) of at least 40 percent, and an Adjusted net cash (debt) to Equity ratio below 55 percent.

Liquidity management and funding

Hydro manages its liquidity and funding requirements centrally to cover group operating requirements and long-term capital needs. Hydro operates cash pools in several currencies where all wholly-owned subsidiaries participate, to the extent permitted by country legislation. Such cash pool arrangements facilitate netting of cash positions within the group, thereby reducing the requirement for external financing, and centralizing management of aggregated positions to the parent company. At the end of 2017, NOK 3.2 billion of Hydro's cash position of NOK 11.8 billion was outside such group arrangements, mainly in Brazil.

Hydro has an ambition to access national and international capital markets as primary sources for external long-term funding. Hydro issued bonds amounting to NOK 3 billion and SEK 3 billion in 2017.

Hydro has a syndicated USD 1,700 million revolving credit facility maturing in 2020. Drawing per year-end 2017 was approximately NOK 3 billion, and was repaid in January 2018.

Funding of subsidiaries, associates and jointly controlled entities

Normally the parent company, Norsk Hydro ASA, incurs debt and extends loans or equity to wholly-owned subsidiaries to fund capital requirements. Hydro's policy is to finance part-owned subsidiaries and investments in associates and joint arrangements according to its ownership share, on equal terms with the other owners. All financing is executed on an arm's-length basis. Project financing is used for certain funding requirements mainly to mitigate risk while also considering partnership and other relevant factors.

Shareholder return

Long-term return to shareholders should reflect the value created by Hydro, and consists of dividends and share price development. Hydro aims to provide its shareholders with a predictable and competitive return compared with alternative investments in similar companies. Our ambition is to pay out a predictable dividend and in the long term to pay out, on average, 40 percent of net income as ordinary dividend over the cycle to our shareholders. The dividend policy has a floor of NOK 1.25 per share. Dividends for a particular year are based on expected future earnings and cash flow, future investment opportunities, the outlook for world markets and Hydro's current financial position. Share buybacks or extraordinary dividends may be used to supplement ordinary dividends during periods of strong financial results after considering the status of the business cycle and capital requirements for future growth.

Hydro's capital management measures

Hydro's management uses the Adjusted net cash (debt) to Equity ratio to assess the group's financial solidity and ability to absorb volatility in the markets. Net cash (debt) is defined as Hydro's cash and cash equivalents plus short-term investments, less short- and long-term interest-bearing debt. Adjusted net cash (debt) is adjusted for Net cash (debt) positions regarded as unavailable for servicing debt, and includes pension liabilities and other obligations which are considered debt-like in nature.

The ability to generate cash compared to financial liabilities is another important measure of risk exposure and financial solidity. Hydro's management uses Funds from operations and the ratio Funds from operations to Adjusted net cash (debt) as capital management measures. Funds from operations reflects the cash generation from Hydro's wholly and partly owned operating assets before changes in net operating capital, including the contribution from equity accounted investments, and after current tax expense.

Both financial ratio calculations include adjustments for the indebtedness of Hydro's equity accounted investments. Though Hydro has no financial obligations towards the lenders of its equity accounted investments, the adjustments are considered relevant as the debt and cash flow level in these entities affect Hydro's overall cash generation and financial risk profile.

Adjusted net cash (debt), Equity, Funds from operations and the above mentioned financial ratios are presented in the following table.

Adjusted net cash (debt) including net debt equity accounted investments (EAI)

Amounts in NOK million, except ratio	2017	2016
Cash and cash equivalents	11 828	8 037
Short-term investments	1 311	4 611
Bank loans and other interest-bearing short-term debt	(8 245)	(3 283)
Long-term debt	(9 012)	(3 397)
Net cash (debt)	(4 118)	5 969
Cash and cash equivalents and short-term investments in captive insurance company ¹⁾	(1 076)	(1 103)
Net pension obligation at fair value, net of expected income tax benefit ²⁾	(7 895)	(7 338)
Operating lease commitments, net of expected income tax benefit ³⁾	(1 585)	(507)
Short- and long-term provisions net of expected income tax benefit, and other liabilities ⁴⁾	(3 295)	(2 619)
Adjusted net cash (debt)	(17 968)	(5 598)
Net debt in EAI ⁵⁾	(5 798)	(6 887)
Adjusted net cash (debt) including EAI	(23 767)	(12 485)

Adjusted net cash (debt) including EAI / Equity

Total equity	(92 252)	(87 640)
Adjusted net cash (debt) including EAI / Equity	0.26	0.14

Funds from operations / Adjusted net cash (debt) including EAI

Amounts in NOK million, except ratio	2017	2016
Net income (loss)	9 184	6 586
Depreciation, amortization and impairment	6 161	5 474
Deferred taxes	(685)	563
Loss (gain) on sale of non-current assets	(2 046)	(226)
Transaction related effects (Sapa) ⁶⁾	707	-
Net foreign exchange (gain) loss	875	(2 266)
Capitalized interest	(75)	(97)
Commodity derivatives	322	(29)
Hydro's share of depreciation, amortization and impairment in EAI	1 638	1 802
Funds from operations	16 081	11 807
Funds from operations / Adjusted net cash (debt) including EAI	0.68	0.95

1) 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 cash (debt).

2) The expected income tax benefit related to the net pension liability is NOK 1,474 million and NOK 1,338 million, respectively, for 2017 and 2016.

3) Operating lease commitments are discounted using a rate of 1.14 percent and 1.29 percent for 2017 and 2016, respectively. The expected tax benefit on operating lease commitments is estimated at 30 percent. Measurement of operating lease commitments is different from measurement under the forthcoming IFRS 16 Leases.

4) 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.

5) 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 positions, 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. For 2017, the adjustment is related to Qatalum only. 2016 also includes share of net debt in Sapa.

6) Reversal of inventory re-valuation in Sapa.

Note 39 - Dividends

Hydro's Board of Directors normally proposes a dividend per share in connection with the fourth quarter results that are published in February each year. The Annual General Meeting considers this proposal, normally in May, and the approved dividend is then paid to the shareholders. Dividends are paid once each calendar year; generally occurring in May. For non-Norwegian shareholders, Norwegian withholding tax will be deducted at source in accordance with the applicable Norwegian tax regulations. For additional information related to Hydro's dividend and shareholder policy see note 38 Capital management.

For fiscal year 2017 the Board of Directors has proposed a dividend of NOK 1.75 per share to be paid in May 2018. The Annual General Meeting, scheduled to be held May 7, 2018, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 3,578 million. In accordance with IFRS, the fiscal year 2017 proposed dividend is not recognized as a liability in the 2017 financial statements.

Dividends declared and paid in 2017 and 2016 for the prior fiscal year, respectively, are as follows:

	Paid in 2017 for fiscal year 2016	Paid in 2016 for fiscal year 2015
Dividend per share paid, NOK	1.25	1.00
Total dividends paid, NOK million	2 556	2 043
Date proposed	February 8, 2017	February 16, 2016
Date approved	May 3, 2017	May 2, 2016
Dividend payment date	May 12, 2017	May 12, 2016

Dividends to non-controlling shareholders in Hydro's subsidiaries are reported as dividends in Consolidated statements of changes in equity.

Note 40 - Contractual commitments and commitments for future investments

Amounts in NOK million	2018	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	1 465	164	1 629
Additional authorized future investments in property, plant and equipment	1 489	631	2 119
Contract commitments for other future investments	34	3	38
Total	2 988	798	3 786

Additional authorized future investments include projects formally approved for development by the Board of Directors or management. General investment budgets are excluded from these amounts.

Hydro has long-term contractual commitments for the purchase of aluminium, raw materials, electricity, and transportation in addition to long-term sales commitments. The future non-cancellable fixed and determinable obligations under these commitments as of December 31, 2017 are shown in the table below:

Amounts in NOK million	Bauxite, alumina and aluminium	Energy related	Other	Sales commit- ments
2018	16 902	9 697	4 091	(20 789)
2019	6 892	7 923	2 777	(12 880)
2020	5 983	6 957	1 603	(10 466)
2021	5 164	5 813	1 040	(7 120)
2022	5 340	6 030	896	(5 177)
Thereafter	23 121	37 444	8 661	(19 221)
Total	63 403	73 864	19 069	(75 652)

Amounts relating to contracts which are entirely or partly linked to market prices such as LME are based on the spot price at the balance sheet date.

Long-term sales commitments mainly relate to alumina, aluminium and electricity. The amounts include commitments for the delivery of electricity from power stations that will revert to the Norwegian Government. The volume from these power stations is 547 GWh in 2018 and 12.2 TWh in total. Commitments relating to concession power from stations that are not subject to reversion have an annual volume of 258 GWh.

Hydro also has contractual commitments for the sales and purchase of products from part-owned entities, see note 31 Investments in joint arrangement and associates. These commitments are excluded from the table above. Furthermore, Hydro has additional long-term purchase and sales commitments which include variable elements that are not included in the table above.

Note 41 - Cash flow information

Cash disbursements and receipts included in cash from operations

Amounts in NOK million	2017	2016
Income taxes paid	2 180	1 110
Interest paid	362	379
Interest received	322	468
Dividends received from available-for-sale investments	112	87

In 2017 and 2016, non-cash investing activities for asset retirement costs amounted to NOK 118 million and NOK 953 million, respectively. In 2016, non-cash investing activities for assets acquired via finance lease amounted to NOK 370 million.

Note 42 - Auditor's remuneration

KPMG is the Group auditor of Norsk Hydro ASA. EY was the appointed group auditor for Sapa prior to the transaction on October 2, 2017, and has continued as auditor for the former Sapa units now constituting business area Extruded Solutions. The following table shows fees to the appointed auditors for 2017 and 2016. For 2017, the table includes fees to KPMG for the period January 1 to December 31, and fees to EY for the period October 2 to December 31. For all categories the reported fee is the recognized expense for the year.

Amounts in NOK million	Audit ¹⁾	Audit related ²⁾	Other services ³⁾	Tax related	Total
2017					
Norway	15	1	6	-	23
Outside Norway	24	1	2	-	27
Total	39	2	8	-	50
2016					
Norway	12	1	2	-	15
Outside Norway	12	-	-	1	13
Total	24	1	2	1	28

1) Audit fees included audit fee to other auditors than KPMG for one subsidiary in 2016. Following completion of the Sapa transaction, audit fees in 2017 include fees to EY for the period October 2, 2017 to December 31, 2017. Audit fees of NOK 39 million consist of fees to KPMG of NOK 28 million, and fees to EY of NOK 11 million.

2) Audit related fees of NOK 2 million are fees to KPMG.

3) Other services mainly include KPMG's review of viability performance and EY services related to tax and immigration services for expatriated employees. Fees for other services of NOK 8 million consist of fees to KPMG of NOK 2 million, and fees to EY of NOK 6 million.

Note 43 - Subsequent events

In February 2018, extreme rainfall in Barcarena in the state of Pará, Brazil, led to regional flooding. Due to concerns over possible water contamination from Alunorte during this flooding, authorities have taken several measures against the alumina refinery. These include orders to reduce production by 50 percent and halt operations at its DRS2 bauxite residue deposit, which is currently under commissioning. In addition, suspending operations on one of two tailing dams at the Paragominas bauxite mine. All of these requirements have been fulfilled. Hydro issued a force majeure notice towards its alumina and alumina hydrate customers due to the production cuts and current lack of clarity into what measures it would take to return to normal operations.

Measures are being implemented to resolve the situation at Alunorte, including establishing an internal taskforce to conduct a review of Alunorte and commissioning an independent external review of Alunorte. Hydro has also decided to initiate a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions. So far, no spills or leakages have been detected from Alunorte's bauxite residue deposits after the extreme rain event.

Regardless of the cause of contamination, Hydro collaborates with local institutions on humanitarian relief to assist communities in Barcarena within health and water. For neighboring communities Vila Nova, Burajuba and Bom Futuro, Hydro commits to working with local partners and investing in proper water supply. Hydro further commits to work with community, civil society and government to clarify the sources of water pollution and other water-related issues in the Barcarena region.

Fines of about NOK 50 million have been issued to Hydro by Brazilian federal authorities. As the period of reduced production and measures required to resume full production is not yet known and potential additional negative effects might materialize, we are not in a position to estimate the financial impact of the incident.

On February 26, 2018, Hydro made a binding offer to acquire Rio Tinto's Icelandic aluminium plant Rio Tinto Iceland Ltd (ISAL), its 53 percent share in Dutch anode facility Aluminium & Chemie Rotterdam B.V. (Aluchemie) in which Hydro currently holds 47 percent, and 50 percent of the shares in Swedish aluminium fluoride plant Alufluor AB. The transaction is subject to statutory consultation with employees and other stakeholders, as well as approval from the EU competition authorities. The offered price is USD 345 million, equivalent to about NOK 2.8 billion, on a cash and debt free basis, subject to certain adjustments.

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Amounts in NOK million	Notes	2017	2016
Revenue		317	316
Gain (loss) on sale of subsidiaries, net	7	41	304
Total operating income		357	619
Employee benefit expense	2, 3	535	436
Depreciation and impairment	4	18	19
Other		278	182
Total operating expenses		831	637
Operating loss		(474)	(17)
Financial income, net	5	(17)	8 654
Income before tax		(491)	8 637
Income taxes	6	307	477
Net income		(183)	9 114
Appropriation of net income and equity transfers			
Dividend proposed		3 578	2 554
Retained earnings		(3 762)	6 560
Total appropriation		(183)	9 114

The accompanying notes are an integral part of the financial statements.

Amounts in NOK million, December 31	Notes	2017	2016
Assets			
Property, plant and equipment and intangible assets	4	214	205
Shares in subsidiaries	7	57 052	57 063
Receivables from subsidiaries	8, 10	11 598	11 884
Prepaid pension, investments and other non-current assets	2, 9	4 943	4 261
Total financial non-current assets		73 592	73 208
Receivables from subsidiaries		10 142	8 207
Prepaid expenses and other current assets	10	40	86
Short-term investments		-	3 350
Cash and cash equivalents		7 889	5 442
Total current assets		18 072	17 085
Total assets		91 878	90 498
Equity and liabilities			
Paid-in capital			
Share capital	13	2 272	2 272
Treasury shares	13	(27)	(29)
Paid-in premium	13	28 987	28 987
Other paid-in capital	13	110	82
Retained earnings			
Retained earnings	13	30 521	33 938
Treasury shares	13	(783)	(841)
Equity	13	61 080	64 409
Long-term provisions	2, 9	3 219	3 302
Long-term debt	12	8 056	2 365
Payables to subsidiaries		49	230
Other long-term liabilities		8 105	2 595
Bank loans and other interest-bearing short-term debt		3 616	578
Dividends payable		3 578	2 554
Payables to subsidiaries		11 774	16 287
Other current liabilities		506	773
Total current liabilities		19 473	20 192
Total equity and liabilities		91 878	90 498

The accompanying notes are an integral part of the financial statements.

Statements of cash flows

Amounts in NOK million	2017	2016
Net income	(183)	9 114
Depreciation and impairment	18	19
Net foreign exchange (gain) loss	819	(509)
Changes in receivables and payables, and other items	3 883	(5 087)
Net cash provided by operating activities	4 537	3 537
Purchases of short-term investments	(5 094)	(4 650)
Proceeds from sales of short-term investments	8 402	5 850
Net sales (purchases) of other investments	(602)	463
Net cash provided by investing activities	2 706	1 663
Dividends paid	(2 556)	(2 043)
Proceeds from shares issued	37	24
Other financing activities, net	(2 405)	(2 662)
Net cash used in financing activities	(4 924)	(4 681)
Foreign currency effects on cash	128	(23)
Net increase in cash and cash equivalents	2 447	496
Cash and cash equivalents at beginning of year	5 442	4 947
Cash and cash equivalents at end of year	7 889	5 442

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements Norsk Hydro ASA

Note 1 - Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with the Norwegian accounting act and accounting principles generally accepted in Norway (N GAAP). Financial statement preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates. Interest rates used for calculating net present values are rounded to the nearest 10 basis points for post employment benefits, to the nearest 25 basis points for other non financial assets and liabilities. As a result of rounding adjustments, the figures in one or more columns included in the financial statements may not add up to the total of that column.

Shares in subsidiaries, associates and jointly controlled entities

Shares in subsidiaries, associates and jointly controlled entities are presented according to the cost method. Group relief received is included in dividends from subsidiaries. Dividend from subsidiaries is recognized in the year for which it is proposed by the subsidiary to the extent Norsk Hydro ASA can control the decision of the subsidiary through its share holdings. Shares in subsidiaries, associates and jointly controlled entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed the fair value of the investment. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

Employee retirement plans

Norsk Hydro ASA has adopted the alternative treatment allowed in NRS 6 whereby employee retirement plans are measured as required by IAS 19, see note 2 Significant accounting policies to the consolidated financial statements for additional information.

Foreign currency

The functional currency of the company is the Norwegian kroner, NOK. Realized and unrealized currency gains or losses on transactions denominated in other currencies than NOK, as well as currency gains or losses on assets and liabilities denominated in a currency other than the NOK, are included in Financial income, net. This is in accordance with NRS' preliminary standard on transactions and accounts in foreign currency.

Cash and cash equivalents

Cash and cash equivalents includes cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

Short-term investments

Short-term investments includes bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and current listed equity and debt securities held for trading and valued at fair value. The resulting unrealized holding gains and losses are included in Financial income, net. Investment income is recognized when earned.

Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation and impairment losses. According to NRS' preliminary standard regarding impairment of non-current assets such assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment of long-lived assets is recognized when the recoverable amount determined as the higher of fair value less cost to sell or value in use of the asset or group of assets is less than the carrying value. The amount of the impairment is the difference between the carrying value and the recoverable amount. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

Intangible assets

Intangible assets acquired individually or as a group are recognized at fair value when acquired, in accordance with NRS' preliminary standard on intangible assets. Intangible assets are amortized on a straight-line basis over their useful life and tested for impairment whenever indications of impairment are present.

Norsk Hydro ASA accounts for CO₂ emission allowances at cost as an intangible asset. The emission rights are not amortized, impairment testing is done on an annual basis. Sale of CO₂ emission rights is recognized at the time of sale at the transaction price.

Leased assets

Leases are assessed under NRS 14 Leasing. Lease arrangements that transfer the majority of risks and control to Hydro are considered financial lease, and recognized as asset and liability. Payments under other leases and rental arrangements are expensed over the lease term.

Derivative instruments

Forward currency contracts and currency options are recognized in the financial statements and measured at fair value at each balance sheet date with the resulting unrealized gain or loss recorded in Financial income, net.

Provisions

Provisions are recognized when Norsk Hydro ASA has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that Norsk Hydro ASA will be required to settle the obligation, and a reliable estimate can be made of the amount, taking into account the risks and uncertainties. The provision is measured at the present value of the cash flows estimated to settle the obligation. Uncertain outcomes are measured as the expected value of reasonably possible outcomes.

Contingencies and guarantees

Norsk Hydro ASA recognizes a liability for the fair value of obligations it has undertaken in issuing guarantees. Contingencies are recognized in the financial statements when probable of occurrence and reliably estimable.

Share-based compensation

Norsk Hydro ASA accounts for share-based payment in accordance with NRS 15A Share-Based Payment. NRS 15A requires share-based payments to be accounted for as required by IFRS 2 Share-based Payment. See note 2 Significant accounting policies to the consolidated financial statements for additional information.

Risk management

For information about risk management in Norsk Hydro ASA see note 12 Financial and commercial risk management to the consolidated financial statements.

Income taxes

Deferred income tax expense is calculated using the liability method in accordance with NRS' preliminary standard on Income Taxes. Under the liability method, deferred tax assets and liabilities are measured based on the differences between the carrying values of assets and liabilities for financial reporting and their tax basis which are considered temporary in nature. Deferred income tax related to remeasurements of pension obligations are recognized directly in equity. The tax effect of equity transactions, such as group contribution given, is recognized as a part of the equity transaction and do not affect the income tax expense. Other changes in deferred income tax assets and liability balances during the year represent the deferred income tax expense. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates are enacted.

Note 2 - Employee retirement plans

Norsk Hydro ASA has closed the main defined benefit plans for new members, and the majority of employees are now covered by a defined contribution plan that is based on salaries up to a maximum level subject to tax deduction. For additional salaries, employees earn retirement benefits in an unfunded contribution based plan. The remaining employees are covered by defined benefit plans that offer benefits based on final salary level and the number of years in service, and include benefits for dependents. Contributions to the plan providing benefits based on salaries up to a maximum level are subject to tax deduction. This plan is funded; all vested benefits are required by law to be funded for such plans. Benefits based on salaries above this level are covered by unfunded plans. The main funded plan is managed by Norsk Hydros Pensjonskasse, a separate, regulated

legal entity. Hydro's pension plans supplement the public pension schemes in Norway. The plans comply with legal requirements for pension plans in Norway. Plans providing benefits for salary levels above the tax deductible level have been closed for new members from January 1, 2017.

Norsk Hydro ASA participates in a pension plan that entitles the majority of its employees life-long benefits in addition to other pension benefits. The benefits are financed through a pooled arrangement by private sector employers (avtalefestet pensjon, AFP) where also the Norwegian state contributes. The plan is a defined benefit plan with limited funding and where plan assets are not segregated. The information required to calculate the share of the plan and account for the plan as a defined benefit plan is not available from the plan administrator. Hydro therefore accounts for the plan as if it were a defined contribution plan. The annual contributions have increased since inception and are expected to increase further. The employer contributions are included in Multiemployer plans.

Pension cost

Amounts in NOK million	2017	2016
Defined benefit plans	36	37
Defined contribution plans	17	8
Multiemployer plans	3	3
Termination benefits and other	8	4
Social security cost	9	9
Pension expense	75	61
Interest expense (income)	(32)	(21)
Remeasurement (gain) loss directly to equity	(458)	(422)

Recognized defined benefit assets and liability

Amounts in NOK million	2017	2016
Defined benefit obligation major plans	(5 103)	(5 205)
Plan assets	6 832	6 369
Reimbursement rights	303	311
Liability other plans	(2)	-
Social security cost	(309)	(298)
Net defined benefit asset	1 722	1 176
Recognized prepaid pension	4 221	3 590
Recognized pension liability	(2 499)	(2 414)
Net amount recognized	1 722	1 176

Change in defined benefit obligation (DBO)

Amounts in NOK million	2017	2016
Opening Balance	(5 205)	(5 402)
Current service cost	(35)	(36)
Interest expense	(127)	(137)
Actuarial gain (loss) economic assumptions	(61)	81
Experience gain (loss)	(40)	(20)
Benefit payments	307	313
Terminations benefits	(6)	(7)
Settlements	65	2
Closing Balance	(5 103)	(5 205)

Change in pension plan assets

Amounts in NOK million	2017	2016
Opening Balance	6 369	6 050
Interest income	158	158
Return on plan assets above (below) interest income	563	358
Contributions to plans	20	27
Benefit payments	(211)	(219)
Settlements	(67)	(4)
Closing Balance	6 832	6 369

Analysis of the defined benefit obligation (DBO)

Amounts in NOK million	2017	2016
Active members	(1 119)	(1 061)
Deferred members	(426)	(402)
Pensioners	(3 557)	(3 743)
Defined benefit obligation	(5 103)	(5 205)

	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Assumptions	2017	2017	2016	2016
Discount rate	2.40%	2.50%	2.50%	2.60%
Expected salary increase	2.25%	2.25%	2.25%	2.25%
Expected pension increase	1.00%	1.00%	1.00%	1.25%
Mortality basis	K2013	K2013	K2013	K2013

See note 36 Employee retirement plans in notes to the consolidated financial statements for information about sensitivities.

Note 3 - Management remuneration, employee costs and auditor fees

See note 9 Management remuneration in the notes to the consolidated financial statements for information and details related to the Corporate Management Board remuneration. Costs for some corporate management board members employed by subsidiaries are charged to Norsk Hydro ASA for services rendered as members of the Corporate Management Board.

See note 10 Board of Directors and Corporate Assembly in the notes to the consolidated financial statements for information and details related to the Board of Directors' remuneration.

See note 17 Employee remuneration in the notes to the consolidated financial statements for information on the employee share purchase plan.

Partners and employees of Hydro's appointed auditors, KPMG, own no shares in Norsk Hydro ASA or any of its subsidiaries. Audit fees were NOK 8 million in 2017 and NOK 7 million in 2016. Audit related fees were NOK 1 million in 2017. Fees for other services were NOK 1 million in both 2017 and 2016.

The average number of employees in Norsk Hydro ASA was 272 in 2017 as compared to 250 in 2016. As of year end 2017 and 2016, Norsk Hydro ASA employed 277 and 267 employees, respectively.

Total loans given by Norsk Hydro ASA to Norwegian employees as of December 31, 2017 were NOK 89 million. Loans to employees consist of NOK 40 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of December 31, 2017 related to the employee share purchase plan was NOK 13 million.

Certain employee costs for Norsk Hydro ASA employees engaged in activities for other Group companies are accounted for on a net basis, reducing Employee benefit expense. Payroll related expenses are provided in the table below.

Amounts in NOK million	2017	2016
Employee benefit expense:		
Salaries	402	362
Social security costs	60	52
Other benefits	1	-
Pension expense (note 2)	75	61
Internal invoicing of payroll related costs	(3)	(39)
Total	535	436

Note 4 - Property, plant and equipment and intangible assets

Operating lease expense amounted to NOK 72 million in 2017 and NOK 76 million in 2016. The company has the following future operating lease commitments under non-cancellable leases: 2018: NOK 73 million, 2019: NOK 73 million, 2020: NOK 73 million, 2021: NOK 12 million.

Amounts in NOK million	Property, plant and equipment	Intangible assets	Total
Cost December 31, 2016	334	79	413
Additions at cost	11	18	29
Disposals at cost	(1)	(32)	(33)
Accumulated depreciation and impairment December 31, 2017	(176)	(19)	(195)
Carrying value December 31, 2017	167	47	214
Depreciation and impairment in 2017	(9)	(9)	(18)

Intangible assets mainly consist of software.

Note 5 - Financial income and expense

Amounts in NOK million	2017	2016
Dividends from subsidiaries	588	7 721
Interest from group companies	362	417
Other interest income	73	198
Interest paid to group companies	(106)	(42)
Other interest expense	(151)	(147)
Net foreign exchange gain (loss)	(819)	509
Loss on loans to group companies	-	(28)
Other, net	36	26
Financial income, net	(17)	8 654

Note 6 - Income taxes

The tax effect of temporary differences resulting in deferred tax assets (liabilities) are:

Amounts in NOK million	Temporary differences Tax effect	
	2017	2016
Short-term items	6	17
Long-term receivables from subsidiaries	-	(321)
Pensions ¹⁾	(396)	(282)
Long-term debt	-	98
Other long-term items	25	58
Tax loss carryforwards	-	-
Deferred tax assets (liabilities)	(365)	(430)

1) Include NOK (111) million and NOK (100) million of tax benefit (expense) allocated directly to equity in 2017 and 2016 respectively.

In accordance with the preliminary accounting standard for tax, taxable temporary differences and deductible temporary differences, which reverse or may reverse in the same period, are netted.

Reconciliation of tax expense

Amounts in NOK million	2017	2016
Income (loss) before taxes	(491)	8 637
Expected income taxes at statutory tax rate	(118)	2 159
Dividend exclusion	(44)	(1 911)
Effect of tax law change	(18)	(24)
Favorable decisions in tax disputes	(108)	(602)
Permanent differences and other, net	(20)	(99)
Income taxes	(307)	(477)

Components of income taxes

Current income taxes	(131)	(212)
Change in deferred taxes	(176)	(265)
Income taxes	(307)	(477)

See note 23 Income taxes in the consolidated financial statements for further information.

Taxes payable were NOK 63 million per December 31, 2017 and NOK 308 million per December 31, 2016.

Note 7 - Shares in subsidiaries and associates

The following shares in subsidiaries are directly owned by Norsk Hydro ASA.

Company name	Country	Location	Percentage of shares owned by Norsk Hydro ASA	Total share capital of the company (1,000's)	Book value (NOK million)
Hydro Aluminium AS	Norway	Oslo	100.00	14 472 252	51 293
Hydro Energi AS	Norway	Oslo	100.00	868 560	5 643
Hydro Aluminium Deutschland GmbH ¹⁾	Germany	Grevenbroich	25.04	73 894	92
Industriforsikring AS	Norway	Oslo	100.00	20 000	20
Hydro Kapitalforvaltning AS	Norway	Oslo	100.00	2 500	4
Total					57 052

1) The company is owned 74.96 percent by Hydro Aluminium AS, and 25.04 percent by Norsk Hydro ASA.

Percentage of shares owned equals percentage of voting shares owned. Several of the above-mentioned companies also own shares in other companies.

In addition to the directly owned subsidiaries listed above, Norsk Hydro ASA has the following subsidiaries with significant operational activities. Sales offices, companies mainly serving as holding companies, and dormant companies, as well as companies holding smaller operational activities are not included in the list below. A full list of subsidiaries is available in Hydro's country by country reporting and at www.hydro.com. The companies are listed by the business area in which the majority of their activities are managed.

Company name	Country	Ownership
Bauxite & Alumina		
ALUNORTE - Alumina do Norte do Brasil S.A.	Brazil	92,13
Mineração Paragominas SA	Brazil	100,00
Rolled Products		
Hydro Aluminium Rolled Products GmbH	Germany	100,00
Hydro Aluminium Rolled Products AS	Norway	100,00
Primary Metal		
ALBRAS - Alumínio Brasileiro SA	Brazil	51,00
Sør-Norge Aluminium AS	Norway	100,00
Slovalco a.s.	Slovakia	55,30
Metal Markets		
Extrusion Services S.a.r.l	France	100,00
Hydro Aluminium Gießerei Rackwitz GmbH	Germany	100,00
Hydro Aluminium Clervaux S.A.	Luxembourg	100,00
Hydro Aluminium Iberia S.A.U	Spain	100,00
Hydro Aluminium Deeside Ltd.	United Kingdom	100,00
Hydro Aluminium Metals USA, LLC	United States	100,00
Extruded Products		
Hydro Extrusion Nenzing GmbH	Austria	100,00
Hydro Extrusion Lichtervelde NV	Belgium	100,00
Hydro Building Systems Belgium NV	Belgium	100,00
Sapa Precision Tubing Lichtervelde NV	Belgium	100,00
Hydro Extrusion Raeren SA	Belgium	100,00
Sapa Aluminium Brasil S.A.	Brazil	100,00
Sapa Canada Inc.	Canada	100,00
Sapa Precision Tubing (Suzhou) Co. Ltd.	China	100,00
Hydro Extrusion Denmark A/S	Denmark	100,00
Hydro Precision Tubing Tønder A/S	Denmark	100,00
Hydro Building Systems France SARL	France	100,00
Hydro BuildEx S.a.r.l.	France	100,00
Hydro Extrusion Lucé/Chateauroux SAS	France	100,00
Hydro Extrusion Puget SAS	France	100,00
Hydro Extrusion Albi SAS	France	100,00
Hydro Extrusion Offenburg GmbH	Germany	94,80
Hydro Extrusion Deutschland GmbH	Germany	100,00
Sapa Building Systems GmbH	Germany	100,00
Hydro Extrusion Hungary Kft	Hungary	100,00
Hydro Extrusion Italy Srl	Italy	100,00
Hydro Building Systems Italy S.p.a.	Italy	100,00
Hydro Extrusion Hoogezand B.V.	Netherlands	100,00
Hydro Extrusion Drunen B.V.	Netherlands	100,00
Sapa Aluminium Sp. z.o.o.	Poland	100,00
Hydro Extrusion Slovakia a.s.	Slovakia	100,00
Hydro Building Systems Spain S.L.U.	Spain	100,00
Hydro Extrusion Spain S.A.U.	Spain	100,00
Hydro Extrusion Sweden AB	Sweden	100,00
Hydro Extrusion UK Ltd.	United Kingdom	100,00
Hydro Components UK Ltd.	United Kingdom	100,00
Hydro Building Systems UK Ltd	United Kingdom	100,00
Hydro Extrusion USA LLC	United States	100,00
Hydro Extrusion Delhi LLC	United States	100,00
Hydro Extrusion North America LLC	United States	100,00
Sapa Precision Tubing Rockledge LLC	United States	100,00
Hydro Extrusion Portland Inc	United States	100,00
Hydro Extruder LLC	United States	100,00
Energy		
Røldal Suldal Kraft as	Norway	91,26

Net gain on sale of subsidiaries in 2017 refers to sale of Herøya Nett AS. Net gain on sale of subsidiaries in 2016 refers to liquidation of Norsk Hydro Plastic Pipe AS and sale of Herøya Industripark AS.

Norsk Hydro ASA has a 25.85 percent ownership and voting interest in Corvus Energy Inc. in Richmond, Canada. The carrying value was NOK 48 million as of the end of 2017.

Note 8 - Related party information

See note 11 Related party information in the notes to the consolidated financial statements for identification of related parties and primary relationships with those parties.

Norsk Hydro ASA operates the cash pooling arrangements in Hydro. Further, Norsk Hydro ASA extends loans to subsidiaries, associates and jointly controlled entities at terms and conditions reflecting prevailing market conditions for corresponding services, allowing for a margin to cover administration and risk. See note 5 Financial income and expense for information on interest paid to and received from group companies.

Norsk Hydro ASA allocates costs for corporate staff services and shared services to subsidiaries. The total amount allocated was NOK 96 million in 2017 and NOK 107 million in 2016. Receivables related to such costs amounted to NOK 93 million and NOK 93 million per December 31, 2017 and 2016, respectively.

For information on transactions with employees and management, see note 3 Management remuneration, employee costs and auditor fees and note 9 Management remuneration in the notes to the consolidated financial statements. For information on transactions with Board of Directors and Corporate Assembly see note 10 Board of Directors and Corporate Assembly in the notes to the consolidated financial statements. See note 11 for information on guarantees provided on behalf of subsidiaries and jointly controlled entities.

Note 9 - Specification of balance sheet items

Amounts in NOK million	2017	2016
Securities	535	535
Prepaid pension	4 221	3 590
Investments in associates	48	1
Other non-current assets	138	134
Total prepaid pension, investments and other non-current assets	4 943	4 261
Pension liability	2 499	2 414
Deferred tax liabilities	365	430
Other long-term provisions	356	458
Total long-term provisions	3 219	3 302

Other long-term provisions relate primarily to an onerous contract of office space, see note 11 Related party information in the notes to the consolidated financial statements.

Note 10 - Financial instruments

Norsk Hydro ASA offers currency derivatives to subsidiaries using such instruments for risk management. Contracts are recognized at estimated market value, determined by calculating the contractual cash flows using currency rates at the balance sheet date and discounting those cash flows to a present value. At the end of 2017 and 2016, the value of currency forward contracts outstanding with subsidiaries were as follows:

Amounts in NOK million	2017	2016
Currency forward contracts, short-term	5	29
Currency forward contracts, long-term	8	157
Financial income, net	13	186

The contracts represent exposure mainly in US dollar and Euro. In addition, there are some contracts with exposure to British pounds, Swiss franc, Danish krone, Swedish krone, Japanese yen and Canadian dollars, representing lower amounts. The contracts mature no later than 2020.

Note 11 - Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, performance bonds and various payment or financial guarantees. All commercial guarantees are on behalf of subsidiaries.

Amounts in NOK million	2017	2016
Guarantees related to jointly controlled entities	22	20
Commercial guarantees	3 449	4 539
Total guarantees not recognized	3 471	4 559

Note 12 - Long-term debt

Amounts in NOK million	2017	2016
USD	833	1 160
SEK	3 007	-
NOK	4 497	1 500
Total unsecured loans	8 337	2 660
Less: Current portion	(281)	(295)
Total long-term debt	8 056	2 365

As of December 31, 2017, long-term debt that falls due after 2022 amounted to NOK 999 million. See note 33 Short and long-term debt in notes to the consolidated financial statements for further information.

Note 13 - Number of shares outstanding, shareholders and equity reconciliation

The share capital of Norsk Hydro ASA as of December 31, 2017 was NOK 2,271,760,107 consisting of 2,068,998,276 ordinary shares at NOK 1.098 per share. As of December 31, 2017 Norsk Hydro ASA had purchased 24,300,928 treasury shares at a cost of NOK 810 million. See Consolidated statements of changes in equity and note 37 Shareholders' equity for additional information.

The table shows shareholders holding one percent or more of the total 2,044,697,348 shares outstanding as of December 31, 2017, according to information in the Norwegian securities' registry system (Verdipapirsentralen).

Name	Number of shares
The Ministry of Trade, Industry and Fisheries of Norway	708 865 253
Folketrygdfondet	133 912 794
JPMorgan Chase Bank, N.A., London I ¹⁾	64 000 000
Clearstream Banking S.A. ¹⁾	48 479 234
HSBC BANK PLC ¹⁾	35 291 870
State Street Bank and Trust Comp I ¹⁾	35 080 209
State Street Bank and Trust Comp II ¹⁾	34 459 471
Banque Pictet & Cie SA ¹⁾	33 730 160
The Northern Trust Comp, London Br ¹⁾	31 664 313
State Street Bank and Trust Comp III ¹⁾	21 766 049
JPMorgan Chase Bank, N.A., London II ¹⁾	21 572 379
State Street Bank and Trust Comp IV ¹⁾	20 761 351

1) Nominee accounts.

Changes in equity

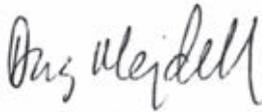
Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
December 31, 2016	31 313	33 097	64 409
Net income		(183)	(183)
Remeasurement postemployment benefits		347	347
Dividend paid in 2017 not accrued ¹⁾		(2)	(2)
Dividend proposed		(3 578)	(3 578)
Treasury shares	29	58	87
December 31, 2017	31 342	29 738	61 080

1) Owners of shares sold from treasury shares in April 2017 received dividends for those shares in May 2017. However, this was not accrued in 2016.

Responsibility statement

We confirm to the best of our knowledge that the consolidated financial statements for 2017 have been prepared in accordance with IFRS as adopted by the European Union, as well as additional information requirements in accordance with the Norwegian Accounting Act, that the financial statements for the parent company for 2017 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements gives a true and fair view of the assets, liabilities, financial position and result of Norsk Hydro ASA and the Hydro Group for the period. We also confirm to the best of our knowledge that the Board of Directors' Report includes a true and fair review of the development, performance and financial position of Norsk Hydro ASA and the Hydro Group, together with a description of the principal risks and uncertainties that they face, and that the country by country report for 2017 has been prepared in accordance with the Norwegian Accounting Act §3-3d and the Norwegian Security Trading Act §5-5a.

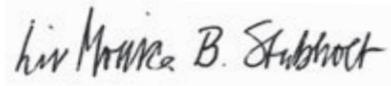
Oslo, March 19, 2018



DAG MEJDELL
Chair



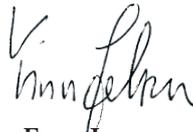
IRENE RUMMELHOFF
Deputy chair



LIV MONICA BARGEM STUBHOLT
Board member



BILLY FREDAGSVIK
Board member



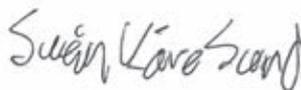
FINN JEBSEN
Board member



STEN ROAR MARTINSEN
Board member



THOMAS SCHULZ
Board member



SVEIN KÅRE SUND
Board member



MARIANNE WIINHOLT
Board member



SVEIN RICHARD BRANDTZÆG
President and CEO

Independent auditor's report



To the Annual Shareholders' Meeting of Norsk Hydro ASA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Norsk Hydro ASA. The financial statements comprise:

- The financial statements of the parent company Norsk Hydro ASA (the "Company"), which comprise the balance sheet as at 31 December 2017, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Norsk Hydro ASA and its subsidiaries (the "Group"), which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway ("NGAAP").
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Basis for Opinion

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and of the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Purchase price allocation from the acquisition of Sapa AS with subsidiaries

Refer to Note 6 Significant subsidiaries and changes to the consolidated group

The key audit matter	How the matter was addressed in our audit
<p>In October 2017, the group acquired the remaining shares of Sapa, a 50% owned joint venture.</p> <p>The relevant framework requires the Group to allocate fair values to the identified assets, liabilities and goodwill. The Sapa group is complex in terms of geographical spread, number of production plants, number of product groups and brands. There is also complexity associated with estimating the fair value of obligations including environmental provisions and contingent liabilities. Therefore, determining the fair value and subsequent allocation of the purchase price has been an area of focus in the audit as it requires a high level of judgement performed by management.</p> <p>In addition there are judgemental items related to the calculated gain pertaining to the previously existing share in Sapa and the total consideration.</p> <p>The Group engaged a valuation expert to assist in the valuation of the assets, liabilities and goodwill in addition to considering the estimated useful lives of the identified fixed and intangible assets.</p> <p>The calculation of goodwill is performed based on the residual fair value not allocated to identified assets and liabilities.</p> <p>The total value of Sapa's net assets is NOK 20,813 million consisting of NOK 11,906 million for the 50 % shares acquired, which includes post-closing adjustments of NOK 46 million and NOK 8,906 million for the 50 % previously held share in Sapa.</p> <p>The figures presented are preliminary and may be subject to adjustments until Q3 2018.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> • Reading and understanding the share purchase agreement and other relevant documents to establish the date of acquisition and to identify other factors which may impact the financial statements • Re-calculation and evaluation of the gain on sale related to the 50% share previously held • Using our own valuation specialists to assist us in critically challenging the methodology used to identify the assets and liabilities acquired • Engaging our own valuation specialists to support us in challenging the valuation calculations and estimates made by the Group • Examining key assumptions and methodologies in determining the fair values using externally derived data • Assessing the credibility and substance of internally derived assumptions from sources such as business plans and forecasts • Assessing the completeness and valuation of the identified intangible assets by considering potential revenue streams generated from the assets and estimated use of brand and technology • Assessing the completeness of recognised contingent liabilities related to the acquisition by reading due diligence reports, legal letters, correspondence with tax offices and previous years financial statements • Evaluating the competence, capability and objectivity of experts engaged by the Group through enquiry and discussion • Considering the adequacy of the disclosure of the acquisition in the notes to the Financial statements.

Environmental clean-up cost and asset retirement obligations

Refer to Note 5 Critical accounting judgement and key sources of estimation uncertainty, Note 34 Provisions, Note 35

Contingent liabilities and contingent assets in the consolidated Financial Statements and Note 43 Subsequent events in the consolidated Financial Statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group is involved in operations such as bauxite mining, alumina refining and primary aluminium production. There is an inherent risk that these operations may generate significant obligations related to site restoration, reforestation and other remediation work. Such potential obligations are dependent on the environments in which the company operates and changes in the relevant political and legislative environments.</p> <p>Management decisions to expand, curtail or terminate operations in specific locations can also impact obligations as described above.</p> <p>Estimating and calculating these obligations and the probability they will occur requires significant management judgement. The risk of inaccurate estimates is increased due to the uncertainty of scope and timing of such obligations and the limited amount of historical data available.</p> <p>The Group has recognized environmental clean-up provisions and asset retirement obligations of NOK 4,585 million as explained in note 34 and disclosed information pertaining to contingent liabilities in note 35. Subsequent events related to high levels of rainfall and high water levels in and around Alunorte and Paragominas in February 2018 leading to an order by the authorities to reduce activity are described in note 43 Subsequent events.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> • Performing retrospective reviews of the accuracy of management's estimates in terms of timing, cash outflows and other assumptions where historical data is available • Assessing the cost and timing of activities applied in the calculations by comparing management forecasts with prior year estimates and also assessing the appropriateness of intended methods for the various types of remediation work proposed • Comparing management's assumptions to relevant market data to test the reasonableness of discount rates, inflation rates, foreign exchange rates and other assumptions used in the calculations • Assessing the accounting treatment for compliance with IFRS and consistency of application, in particular related to the extent to which obligations are capitalized or expensed and the amortization period for capitalized assets • Testing the mathematical accuracy of the models used to calculate provisions and asset retirement obligations • Assessing the adequacy of the disclosures pertaining to estimation uncertainty, provisions, contingent liabilities and subsequent events.

Impairment of goodwill, intangible and non-current assets

Refer to Note 19 Impairment of non-current assets, Note 28 Property, plant and equipment, Note 29 Intangible assets and Note 30 Goodwill in the consolidated Financial Statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group's operations are sensitive to certain commodity prices and other factors, including aluminum and alumina prices, energy prices, inflation rates and relevant foreign exchange rates, which impact key assumptions in cash flow forecasts and can give rise to impairment indicators.</p> <p>The economic environment, and volatility of long-term assumptions indicate that impairment could be a risk related to specific assets, and cash generating units and can also impact the assessment of impairment of goodwill.</p> <p>Management exercise judgement related to expected timing of future cash flows and key assumptions related to commodity and other prices, foreign exchange rates and discount rates.</p> <p>As at 31 December 2017, the Group has goodwill of NOK 7,269 million, Property, plant and equipment of NOK 73,020 million and intangible assets of NOK 5,443 million. No significant impairment has been recognised during 2017.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> • Assessing management's process and results for identification and classification of CGU's and assessing whether they were appropriate and in accordance with relevant accounting standards • Evaluating management's assessment of impairment indicators • Performing retrospective reviews of the accuracy of management's estimates in terms of timing of cash outflows and other assumptions such as long-term pricing where historical data is available • Evaluating and challenging the forecasted cash flows including timing of future cash flows applied in the models with reference to historical accuracy and approved business plans • Testing the sensitivity of movements in key assumptions • Evaluating, with assistance from our valuation specialists, key assumptions such as aluminium and alumina prices, inflation rates, energy and fuel prices, relevant foreign exchange rates and discount rates by reference to external sources and relevant benchmarks • Testing the mathematical accuracy of the models used to calculate value in use • Assessing the adequacy of the disclosures related to impairment

Tax assets and liabilities

Refer to Note 5 Critical accounting judgement and key sources of estimation uncertainty, Note 23 Income Tax, Note 27 Other non-current assets and Note 35 Contingent liabilities and contingent assets in the consolidated Financial Statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group's global operations create exposures to different tax regimes with complex legislation. The Group has recognized significant tax assets related to tax credits and losses carried forward and has exposure to tax claims in several jurisdictions.</p> <p>The volume of tax credits is significant and the assessment of recoverability is dependent on interpretation of laws and regulations which may be subject to change over time.</p> <p>Recoverability of deferred tax assets related to losses carried forward are assessed based on estimates of future taxable profits and are judgmental in nature.</p> <p>Tax provisions and contingent liabilities are recognized and disclosed based on management's assessment of the probability of a future cash outflow and also the ability to reliably estimate the amount of any obligation. Due to the complexity of the various tax regimes in which the Group operates, there is significant judgement involved in these assessments.</p> <p>As of 31 December 2017 the Group has recognized NOK 1,678 million in Prepaid taxes and tax credits, deferred tax assets of NOK 1,617 million including deferred tax assets related to losses carried forward and taxes payable of NOK 2,570 million.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> • Assessing the eligibility of tax credits recognized as assets and the recoverability of these amounts • Assessing the judgment applied to the recognition of deferred tax assets and the reversal or recoverability of these within the many tax jurisdictions • Assessing the process for identification of uncertain tax positions and management's assessment of the probable outcome • Using our knowledge of local jurisdictions and involvement of our local tax specialists to obtain an overview of the local requirements relevant to management's judgements and conclusions for significant estimates • Reading correspondence with relevant tax authorities and assessments from external legal advisors and comparing these with the basis for accounting entries and disclosures • Challenging management as to which cases and exposures are significant and the level of corresponding disclosures to be included in the Annual report

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, with the exception of the financial statements and the Independent auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of our report on Other Legal and Regulatory Requirements below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President and CEO ("Management") for the Financial Statements

The Board of Directors and the President and CEO ("Management") are responsible for the preparation in accordance with law and regulations, and fair presentation of the financial statements of the Company in accordance with NGAAP, and for the preparation and fair presentation of the financial statements of the Group in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report, including the statements on corporate governance and corporate social responsibility, concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 19 March 2018

KPMG AS

Lars Inge Pettersen

State Authorized Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Statement of the Corporate Assembly to the Annual general meeting of Norsk Hydro ASA

The Board of Directors' proposal for the financial statements for the financial year 2017 and the Auditors' report have been submitted to the corporate assembly.

The Corporate Assembly recommends that the directors' proposal regarding the financial statements for 2017 for the parent company, Norsk Hydro ASA, and for Norsk Hydro ASA and its subsidiaries be approved by the annual general meeting, and that the net income for 2017 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, March 19, 2018

Terje Venold

8.2

MILLION TONS

*CO₂ equivalents emitted
from consolidated operations**Viability
performance
statements*

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About the reporting

Principles for reporting on viability performance

The purpose of Hydro's reporting is to provide stakeholders with a fair and balanced picture of relevant aspects, engagements, practices and results for 2017 at a corporate level. We believe that the reporting in total satisfies this purpose. Our reporting on viability performance is aligned with the main reporting principles of the GRI Standards (2016) and the requirements of the International Council on Mining and Metals. The selection of elements reported is based on extensive dialogue with stakeholders. In addition, the reporting builds on processes that are part of our daily operations. Important stakeholders include authorities, investors and financial analysts, employees and their representatives, potential employees, customers, non-governmental organizations and local communities affected by major development projects or restructuring processes. Reporting is not necessarily the target of the dialogue process, but when relevant, we use the outcome to improve our reporting, see page 95.

We have endeavored to provide information that is in accordance with the principles of sound reporting practice. The absence of generally accepted reporting standards and practices in certain areas may nevertheless make it difficult to compare results with reports compiled by other companies, without the availability of further data, analyzes and interpretations.

Reporting scope and limitations

The scope of Viability performance as included on page 79-105 in Hydro's Annual Report 2017, is Hydro's global organization for the period January 1 to December 31, 2017. Operations sold or demerged during the year have in general not been included. Health and safety data for all previously consolidated operations are, however, included in the historical data for the period the unit was owned by Hydro. Regarding environmental data (emissions, energy consumption etc.), operations acquired during the reporting year are included for the complete year. Data from operations that have been closed down, are included for the part of the reporting period it was under operation unless otherwise stated. Minority-owned operations is not included in the reported data except from data based on ownership minority (certain greenhouse gas emissions data) as well as certain additional data for 50/50-owned companies, see note E8 and S14.

Environmental data relating to acquired operations are included in our statistics, and historical data have been recalculated to reflect current operations. Correspondingly,

historical data of divested activities are taken out of our reported data. Employee, safety and work environment data are included from/to the closing date of acquisitions/divestments unless otherwise stated. Consequently environmental data for Extruded Solutions are included for the whole year and historical data have been updated, whilst the employee, safety and work environment data are included from the date of acquisition, 2 October 2017. Financial data are included from 2 October 2017.

Data has been prepared from individual reports in accordance with corporate procedures. Data compiled at each operational unit according to local management systems applicable at the respective operational units are typically based on process data systems, measurements, calculations and/or purchasing data. The data are then aggregated at corporate level, and is not intended to include detailed information that is primarily of significance for individual sites, processes, activities and products.

The reporting is based on input from many units and sources of data. Emphasis has been placed on ensuring that the information is neither incomplete nor misleading. However the scope of the reporting, and varying certainty of data may result in some inherent uncertainties. Please see "Reporting principles" for the specific note to the environmental or social statements for more details.

Main reporting changes

The main changes to the Viability performance reporting in Hydro's Annual Report 2017 compared to 2016, are mainly linked to the Sapa acquisition, completed on 2 October 2017.

The number of permanent employees increased from about 13,000 to 35,000 while the number of operations increased from about 30 to 130. The acquisition has also had consequences to the content and quality of certain information in this report.

Sapa is now the business area Extruded Solutions in Hydro. A thorough update of Hydro's materiality analysis on page 81 was performed to reflect the reporting needs of the joint company.

Sapa's and Hydro's reporting systems and definitions have been differing in several areas of which the most important are:

- As a publicly listed company with the Norwegian state as the largest owner and with activities throughout the whole value chain, Hydro has reported on significantly more indicators
- Sapa did not report according to GRI

In 2018, we will work to further harmonize the reporting. The review of the company's reporting needs after the acquisition, will be continued in 2018.

Uncertainties related to data from Extruded Solutions

Sapa's reporting definitions and scope has been reviewed against the reporting principles applied in the Viability performance reporting. The most relevant environmental figures are possible to compare, unless otherwise stated. In 2018, we will work to further harmonize the reporting to ensure consistent definitions, scope and methodology. Extruded Solutions' sites will be implemented into Hydro's environmental reporting system, HERE, in 2018. The data may be revised when entered into HERE. This includes historical data.

For the social data there are larger differences in the definitions used. In 2018, we will work to further harmonize the reporting. Employees in Extruded Solutions have been transferred to Hydro's human resources SAP system. There may be some uncertainty in the figures, and as a result they may be revised later on.

Where information is reported separately for Extruded Solutions and the rest of Hydro, this is marked either in headlines, the text itself or as footnote. Where there is no such marking, the information relates to Hydro as of 31 December 2017.

Extruded Solutions is included in note E1.1-1.5, E2, E3.1, E4.1, E4.2 (partly), E5.2, E5.3, S1.1-1.2, S3.1, S4, S5.1-5.2, S5.4, S6, S7, S8 (partly), S10 and S13.

Notes that are relevant for Extruded Solutions, but data are missing relates to E4.2 (partly), E4.3, S1.1 (partly), S1.3, S2, S3.2, S5.3, S8 (partly), S11 and S12.

Mining-related information is not applicable to Extruded Solutions, e.g. note E5.1 and E6. Notes E1.6, E1.7 and E3.2 related to GHG and energy intensity in alumina refining and the electrolysis process, and note E7 on production volumes are also not applicable. The notes related to environmental and social information from 50/50-owned joint ventures, i.e. note E8 and S14, are not applicable to Extruded Solutions.

Other reporting changes

- Hydro is a signatory of the Task force on Climate-related Financial Disclosures (TCFD), published in June 2017, and has initiated reporting accordingly, see page V40.
- The former note "Community health" has been substituted by the new note "Wellness".
- The note E2.2 Spillages has been reviewed and updated to include both leakages and emissions to external environment, whereas previously it only included leakages.
- The WBSCD Global Water Tool used to calculate water withdrawal from water stressed areas has been updated
- Figures for GHG intensity in the electrolysis process has been aligned to Primary Metal's definition

Assurance principles and scope

We have requested our company auditor to review the Viability performance 2017 in accordance with the international audit standard ISAE 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board (IAASB). For the underlying systems, the reader is referred to Hydro's steering documents as described under Corporate Governance, see page 141 in Hydro's Annual Report 2017. The auditor's limited assurance report is found on page V41-V42.

Sapa did not have external assurance of their extra-financial reporting. There might therefore be additional uncertainties in the data for Extruded Solutions.

Environmental statements

The table below shows Hydro's main quantitative indicators related to its environmental performance. All indicators are not applicable for every business area. Extruded Solutions is included where they are applicable, except for recycling. More detailed information is, when indicated, available in the notes to the environmental statements.

Environmental performance*

	Notes	% change 2016-2017	2017	2016	2015	2014	2013	GRI Standards reference
GHG emissions								
Direct GHG emissions from consolidated operations (Million tons CO ₂ e) (equal to scope 1)	E1.1	1%	8.22	8.16	7.88	7.88	7.42	305-1
Indirect GHG emissions from consolidated operations (Million tons CO ₂ e) (equal to scope 2)	E1.1	1%	3.57	3.54	3.61	3.39	3.10	305-2
Direct GHG emissions from Hydro's ownership equity (Million tons CO ₂ e) ¹⁾ (equal to scope 1)	E1.4	-	8.44	8.45	8.16	8.13	7.66	305-1
Indirect GHG emissions from Hydro's ownership equity (Million tons CO ₂ e) ¹⁾ (equal to scope 2)	E1.4	3%	5.86	5.82	5.85 ⁷⁾	5.57	5.44	305-2
GHG intensity								
Alumina refining (mt CO ₂ e per mt alumina)	E1.6	-	0.69	0.69	0.69	0.69	0.69	305-4
Electrolysis in Primary Metal (mt CO ₂ e per mt aluminium) ²⁾	E1.7	-	1.59	1.61	1.60	1.62	1.60	305-4
Energy production and consumption								
Energy production (TWh)	E3.1	(4)%	10.8	11.3	10.9	10.2	10.2	
Energy consumption (TWh)	E3.1	-	53.9	54.0	52.6	51.1	49.5	302-1/302-4
Energy intensity								
Alumina refining (GJ per mt alumina)	E3.2	(2)%	7.94	8.07	8.01	7.99	8.17	302-3
Electrolysis process (MWh per mt aluminium)	E3.2	-	13.92	13.89	13.90	13.88	13.91	302-3
Other resource use								
Alumina (Thousand mt)	E4.1	1%	3 353	3 331	3 256	3 153	3 111	301-1
Total water withdrawal from water stressed areas (million m ³) ³⁾	E4.2		0.41					303-1/303-2
Recycling								
Recycled post-consumer scrap (Thousand mt) ⁴⁾	E4.3	10%	152	138	134	111	151	301-2
Total recycled metal (Thousand mt) ⁴⁾	E4.3	3%	1 257	1 215	1 123	1 092	1 189	301-2
Waste (Thousand mt)								
Bauxite tailings	E5.1	(1)%	4 067	4 117	4 128	4 333	3 313	MM3
Bauxite residue (red mud)	E5.1	(7)%	5 979	6 426	5 973	6 069	5 415	MM3
Hazardous waste ³⁾	E5.2		258	243	220			306-4
Other waste ³⁾	E5.2		389	339	351			306-2
Hazardous waste to landfill (percent) ³⁾	E5.3	- ⁵⁾	39%	39%	36%			306-2
Biodiversity in mining								
Accumulated area disturbed (hectares) ⁶⁾	E6.2		6 607	6 444	6 076	5 734	5 629	MM1
Accumulated area rehabilitated (hectares)	E6.2		1 872	1 689	1 509	1 231	707	MM1
Accumulated endangered species observed ³⁾	E6.3	15%	75	65	57			102-11

Figures in brackets indicate a decrease.

*) We believe there is some inaccuracy in the underlying data from Extruded Solutions, please see section on Uncertainties related to data from Extruded Solutions in About the reporting

1) Combined numbers based on ownership equity

2) Includes fully-owned smelters

3) Figures are not comparable to historical figures, which have been removed from the Statements, due to changes in reporting methodology

4) Excluding Extruded Solutions

5) Values are given as percentage points

6) Accumulated area disturbed since construction of the mining area started. The mine started its production in 2006

Notes to the environmental statements

General reporting standards and principles

Environment, energy and resource data are reported through the corporate data reporting tool HERE on an annual basis covering all consolidated operational units (defined as Hydro's ownership share exceeding 50 percent). Data reported to HERE should be based on specific environmental, energy and resource data reporting processes that have been established for management purposes at site, business unit, business area, and corporate level within Hydro. Data are reported on a 100 percent basis for all consolidated operational units if not otherwise stated. All environmental emissions include historical emissions from current operations and are recalculated annually to reflect Hydro's current portfolio, and secure comparability.

Data reported in HERE are in accordance with Hydro's corporate procedure "Registration of environment, resource and energy data". The procedure provides definitions and factors for estimating emission values. Data are compiled at each operational unit according to local environmental management systems and typically based on process data, measurements, calculations and/or purchasing data.

Data for Extruded Solutions have been collected through their systems. The definitions have been reviewed, and the most relevant figures are possible to consolidate, unless otherwise stated. In 2018, we will work to further harmonize the environmental reporting, and include Extruded Solutions' sites into HERE. There is some uncertainty related to Extruded Solutions' historical data prior to 2017, as a result the historical data may be revised when entered into HERE.

Environmental figures for Extruded Solutions are presented for the whole business unit, and not according to geographic structure. Including Extruded Solutions in the existing geographic reporting structure will not make any significant changes. From 2018, the reporting from Extruded Solutions will follow a geographic structure.

Where applicable, we have indicated to which GRI Standards disclosure the different notes or parts of the notes are applicable.

Note E1 - Greenhouse gas emissions

Reporting principles

All greenhouse gas emissions (GHG) are measured as CO₂ equivalents (CO₂e) based on conversion factors for their 100-year global warming potentials (GWP) from the Intergovernmental Panel on Climate Change (IPCC). We use the GWP factors from the IPCC Fourth Assessment Report.

GHG emissions have been calculated based on the principles of the WRI/WBCSD GHG Protocol. Direct emissions from production in Bauxite & Alumina, metal production and downstream operations as well as from the remelters, are comparable to Scope 1 emissions as defined by WRI/WBCSD GHG Protocol.

Indirect emissions, emissions from electricity generation, are calculated based on electricity consumption and emissions factors from the IEA CO₂ Emissions from Fuel Consumption (2016) and are comparable to scope 2 emissions from purchased electricity. The 2014 factors are the most recently available factors and have been used for 2015 reporting and onwards.

We report indirect emissions according to the location-based method in the revised GHG Protocol Scope 2 Guidance. However, we have chosen not to report indirect emissions according to the market-based approach, as this method does not give the correct picture of physical realities.

As Hydro is an integrated company, with ownership along the whole aluminium value chain, the majority of Hydro's emissions are covered within scope 1 and 2 emissions. Scope 3 emissions are mainly relevant for external transport, contributing with significantly less than 5 percent of Hydro's total greenhouse gas emissions, and thus within our anticipated error margin of less than 5 percent.

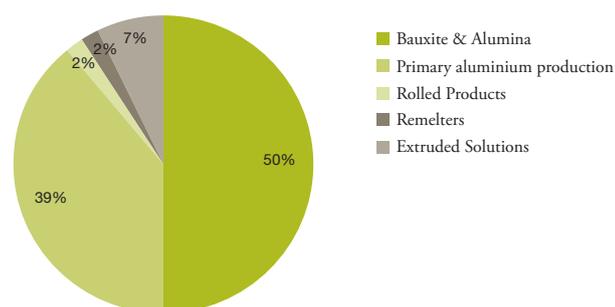
There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

E1.1 Total greenhouse gas emissions in consolidated activities

Reporting principles

Greenhouse gas emissions are reported per process step. For information purposes we have indicated in which business area (financial segment) the emissions mainly take place. There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Hydro's consolidated GHG emissions per business area



Greenhouse gas emissions - consolidated activities

Million tons CO ₂ e	2017	2016	2015	2014	2013
Direct GHG emissions	8.22	8.16	7.88	7.88	7.42
Bauxite & Alumina	4.14	4.17	3.95	3.97	3.64
Primary aluminium production (mainly Primary Metal)	3.21	3.13	3.06	3.07	3.01
Rolled Products	0.16	0.17	0.16	0.17	0.17
Remelters (in Metal Markets and Rolled Products)	0.13	0.12	0.12	0.11	0.11
Extruded Solutions ¹⁾	0.58	0.57	0.58	0.55	0.49
Indirect GHG emissions	3.57	3.54	3.61	3.39	3.10
From electricity generation (mainly Primary Metal)	3.57	3.54	3.61	3.39	3.10
Total GHG emissions	11.78	11.70	11.49	11.27	10.52

1) Extruded Solutions have some remelters

GRI-reference: GRI Standards 305-1 and GRI Standards 305-2

The production of alumina and primary aluminium has increased steadily, see note E7. In 2017, total emissions were impacted by production disturbances at Albras and Karmøy.

E1.2 Total greenhouse gas emissions per country in consolidated activities

Reporting principles

Total greenhouse gas emissions per country in Hydro's consolidated activities (based on 100 percent).

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Greenhouse gas emissions per country - consolidated activities

Million tons CO ₂ e	2017	2016	2015	2014	2013
Brazil ¹⁾	6.15	6.14	5.90	5.94	5.46
Direct	4.95	4.94	4.75	4.77	4.44
Indirect	1.19	1.20	1.15	1.17	1.01
Germany ¹⁾	1.80	1.79	1.76	1.68	1.56
Direct	0.48	0.48	0.47	0.45	0.43
Indirect	1.32	1.30	1.29	1.23	1.12
Norway ¹⁾	1.90	1.87	1.78	1.80	1.77
Direct	1.77	1.75	1.66	1.68	1.65
Indirect	0.13	0.13	0.12	0.12	0.11
Slovakia ¹⁾	0.72	0.72	0.72	0.71	0.72
Direct	0.32	0.31	0.32	0.32	0.30
Indirect	0.40	0.40	0.40	0.39	0.42
Extruded Solutions	1.09	1.06	1.22	1.02	0.90
Direct	0.58	0.57	0.58	0.55	0.49
Indirect	0.51	0.49	0.64	0.47	0.41
Other ¹⁾	0.13	0.12	0.12	0.11	0.11
Direct	0.11	0.10	0.10	0.10	0.09
Indirect	0.02	0.02	0.02	0.01	0.11
Total GHG emissions	11.78	11.70	11.49	11.27	10.52

1) Excluding Extruded Solutions

GRI-reference: GRI Standards 305-1 and GRI Standards 305-2

The production of alumina and primary aluminium has increased steadily, see note E7. In 2017, total emissions were impacted by production disturbances at Albras and Karmøy.

E1.3 Direct GHG emissions per GHG type in consolidated activities

Reporting principles

CO₂ emissions are calculated based on anode consumption during the electrolysis process and use of other fossil fuels. PFC (perfluorocarbon) emissions consist of the two greenhouse gases CF₄ and C₂F₆ which are formed during anode effect situations in the aluminium electrolytic cells. Anode effect is mainly a result of production instability, e.g. in connection to power outages. Emissions are calculated based on automatic process measurements.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Direct GHG emissions per GHG type - consolidated activities

Million tons CO ₂ e	2017	2016	2015	2014	2013
CO ₂	8.01	7.93	7.67	7.63	7.19
PFC	0.21	0.23	0.21	0.25	0.23
Total GHG emissions	8.22	8.16	7.88	7.88	7.42

The production of alumina and primary aluminium has increased steadily, see note E7. In 2017, total emissions were impacted by production disturbances at Albras and Karmøy.

E1.4 Total greenhouse gas emissions based on ownership equity

Reporting principles

In addition to the GHG emissions referred to above, we also report GHG emissions based on our ownership equity as per year end. This data includes Hydro's share of emissions from all operations including non-consolidated operations where Hydro has a minority interest. This figure is comparable to scope 1 according to the GHG protocol. Electricity generation covers indirect GHG emissions from purchased electricity and emissions from Hydro's ownership share in the gas-fired power plant at Qatalum. This figure is comparable to scope 2 according to the GHG protocol. Emissions from electricity generation are based on electricity consumption and IEA CO₂ emissions from Fuel Consumption 2014 factors (the most recent published) for emissions. For 2013, the actual emissions factors are used.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Greenhouse gas emissions - ownership equity

Million tons CO ₂ e	2017	2016	2015	2014	2013
Direct GHG emissions	8.44	8.45	8.16	8.13	7.66
Bauxite & Alumina	3.79	3.82	3.61	3.63	3.30
Primary aluminium production (mainly Primary Metal)	3.65	3.64	3.55	3.53	3.46
Rolled Products	0.30	0.31	0.30	0.30	0.30
Remelters (mostly Metal Markets)	0.13	0.12	0.12	0.11	0.11
Extruded Solutions	0.58	0.57	0.58	0.55	0.49
Indirect GHG emissions	5.86	5.82	5.85	5.57	5.44
Electricity generation (mostly Primary Metal)	5.86	5.82	5.85	5.57	5.44
Total GHG emissions	14.30	14.26	14.02	13.70	13.10

GRI-reference: GRI Standards 305-1 and GRI Standards 305-2

Hydro's production based on ownership equity can be found under Operational review in the section Financial and operating performance in this report.

E1.5 Total greenhouse gas emissions per country based on ownership equity

Reporting principles

Total greenhouse gases per country based on Hydro's ownership equity (see note E1.4 for more information on reporting principles).

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Greenhouse gas emissions per country - ownership equity

Million tons CO ₂ e	2017	2016	2015	2014	2013
Australia ¹⁾	0.87	0.89	0.89	0.85	0.89
Direct	0.12	0.14	0.15	0.14	0.13
From electricity generation	0.75	0.75	0.74	0.71	0.76
Brazil ¹⁾	4.85	4.87	4.64	4.67	4.26
Direct	4.21	4.21	4.02	4.04	3.71
From electricity generation	0.64	0.66	0.62	0.64	0.55
Canada ¹⁾	0.47	0.47	0.47	0.45	0.46
Direct	0.23	0.23	0.23	0.23	0.22
From electricity generation	0.24	0.24	0.24	0.22	0.24
Germany ¹⁾	2.09	2.08	2.04	1.97	1.84
Direct	0.62	0.62	0.60	0.59	0.57
From electricity generation	1.47	1.46	1.44	1.38	1.27
Norway ¹⁾	1.90	1.87	1.78	1.80	1.77
Direct	1.77	1.75	1.66	1.68	1.65
From electricity generation	0.13	0.13	0.12	0.12	0.11
Qatar ¹⁾	2.45	2.45	2.41	2.35	2.39
Direct	0.57	0.60	0.60	0.55	0.55
From electricity generation ¹⁾	1.88	1.85	1.81	1.80	1.84
Slovakia ¹⁾	0.40	0.40	0.40	0.39	0.40
Direct	0.18	0.17	0.18	0.17	0.17
From electricity generation	0.22	0.22	0.22	0.22	0.23
Extruded Solutions	1.09	1.06	1.22	1.02	0.90
Direct	0.58	0.57	0.58	0.55	0.49
From electricity generation	0.51	0.49	0.64	0.47	0.41
Other ¹⁾	0.19	0.18	0.17	0.19	0.18
Direct	0.16	0.16	0.15	0.17	0.16
From electricity generation	0.03	0.02	0.02	0.02	0.02
Total GHG emissions	14.30	14.26	14.02	13.70	12.20

1) Excluding Extruded Solutions

2) Most electricity at Qatalum is generated by Qatalum's fully-owned gas power plant. 0.038 million tons CO₂e came from purchased electricity from the national grid in 2017

GRI-reference: GRI Standards 305-1 and GRI Standards 305-2

Hydro's production based on ownership equity can be found under Operational review in the section Financial and operating performance in this report.

E1.6 GHG intensity - Alunorte alumina refinery

Reporting principles

The GHG intensity is calculated based on total greenhouse gas emissions from Alunorte divided by total alumina production. All alumina refining in Hydro is included.

E1.7 GHG intensity - Electrolysis

Reporting principles

The GHG intensity is calculated based on greenhouse gas emissions from the electrolysis process from Hydro's smelters in the business area Primary Metal. This is an operational target that excludes extraordinary emissions, e.g. during start-up of curtailed capacity. The methodology for calculation is site specific, and historical figures may be subject to change.

Emissions from the primary aluminium smelter Neuss in Germany, located in the business area Rolled Products, are not included. As the GHG emissions from Neuss are at the average, they will not have a significant impact on the overall figure.

Note E2 - Other emission related indicators

E2.1 Other emissions

Reporting principles

Dust and particles include measured and calculated/estimated stack emissions. Diffuse emissions are not included.

Fluorides cover emissions to air of gaseous and particulate fluorides from production of primary aluminium.

NMVOOC (non-methane volatile organic compounds) emissions to air stems primarily from Rolled Products and Extruded Solutions.

PAH (poly-aromatic hydrocarbons) to air is primarily from anode production. Emissions are measured according to NS 16 PAH.

PAH to water is from anode production and is measured according to Borneff 6 PAH.

Sulfur dioxide to air is primarily from the use of coal as an energy source in Alunorte, Brazil, and from the aluminium electrolysis process where the majority of the total emissions come from Albras in Brazil, Neuss in Germany and Slovalco in Slovakia. SO₂ emissions from the Norwegian smelters are considerably lower due to different waste gas treatment techniques used at these plants.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Other Emissions

Metric tons	2017	2016	2015	2014	2013
Dust and particles	4 778	4 344	5 099	5 274	3 369
Fluorides to air	700	684	742	715	665
NM VOC	475	472	524	439	641
Nitrogen oxide	9 782	9 703	9 332	9 772	8 563
PAH to air	10.0	10.7	10.6	11.8	13.0
PAH to water (Borneff 6 PAH)	0.2	0.3	0.4	0.5	0.4
Sulfur dioxide (SO ₂)	32 831	33 247	30 070	33 423	33 319

GRI-reference: GRI Standards 305-7

In October 2017, strong wind resulted in emission of dust from Hydro's Alunorte operations, visible in the vicinity of the Murucupi district. Mitigating actions were taken and the environmental agencies were duly informed.

Hydro uses ozone depleting substances in certain applications in its Brazilian operations, and to some extent also in Extruded Solutions. In 2017, Hydro used in total 7.3 metric tons of such substances in its B&A operations. The reported value corresponds to the purchased amount of such substances and can vary significantly according to the need of refilling existing cooling devices. In Brazil, such substances are registered and reported according to Brazilian legal requirements (GRI 305-6). In Extruded Solutions 0.3 metric tons of such substances were used, and hydrochlorofluorocarbon (HCFC) made up almost two thirds. In 2018 Hydro will work to further harmonize the reporting on ozone depleting substances.

Methane (CH₄) and N₂O emissions from Hydro's operations are negligible compared to the other GHG emissions.

The emissions of mercury to air has been calculated to be around 3 metric tons in 2017.

E2.2 Spillages

Reporting principles

Spillages and permit breaches in Hydro, excluding Extruded Solutions, are registered in Synergi, which is the reporting tool for incidents regarding health, safety, security and environment. According to Hydro's definition, any incident resulting in a spill or leak shall be reported, including significant spillages with short-term reversible damage. Leakages categorized as high severity, i.e. uncontained but reversible impact or uncontained and irreversible impact, and emissions to external environment categorized as high severity, i.e. unintended and sustained, are reported in the table below. A spillage can be reclassified according to changes in the actual consequence of the spillage, and historical figures are updated. Several reported incidents can be closely related and therefor classified as the same spillage. Figures from Extruded Solutions are collected through its incident reporting system and we will work to further harmonize the reporting.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Spillages

	2017	2016	2015	2014	2013
Hydro, excluding Extruded Solutions	1 ¹⁾	3	0	1	2
Extruded Solutions	0 ²⁾				

1) The reported spillage is related to four minor incidents at Hydro Holmestrand in Norway. Each one is below the reporting limit, but due to the frequency, we have reported them as one (combined) spillage.

2) Includes entire 2017

GRI-reference: GRI Standards 306-3

E2.3 Permit breaches

Reporting principles

Permit breaches are based on monthly monitoring. Hydro's definition of permit breaches, any incident that in any way relates to an environmental permit, is in certain cases more strict than the legal definition. Only permit breaches categorized as high severity, i.e. permit breaches requiring regulator contact or permit breaches with possible fine or suspension, are reported in the table below. The reported permit breaches may be related to spillages covered in the table above. Several reported incidents can be related to the same permit and will be reported as one breach. Historical figures may be subject to change due to time lag in administrative procedures. Figures from Extruded Solutions are collected through its incident reporting system and we will work to further harmonize the reporting.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Permit breaches

	2017	2016	2015	2014	2013
Hydro, excluding Extruded Solutions	5 ¹⁾	1	0	0	0
Extruded Solutions	20 ²⁾				

1) All five permit breaches relate to water withdrawal above the permit limit in Paragominas, Brazil

2) Includes entire 2017

E2.4 Provisions for environmental clean-up and future asset retirement obligations

Reporting principles

When Hydro, at acquisition of an asset or start of a business activity, has an obligation to remove, dismantle or remediate the asset or site used, that obligation is included in the cost of the asset with the present value of estimated remediation costs. The same treatment is applied if an obligation to remove, dismantle or remediate the asset is introduced at a later date, through new legislation or other means. For Hydro's accounting policy for provisions and asset retirement obligations, see note 2 Significant accounting policies to Hydro's financial statements. For information about provisions for environmental clean-up and asset retirement obligations (ARO) and environmental liabilities see notes 34 and 35 to the consolidated financial statements.

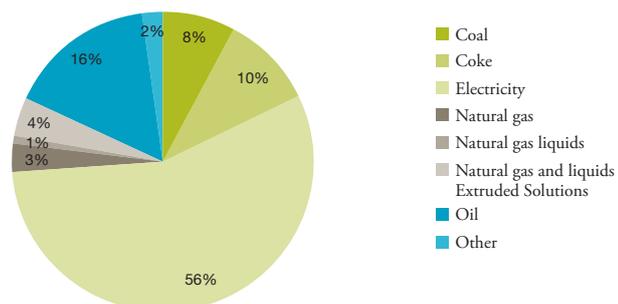
Note E3 - Energy

E3.1 Energy consumption and energy production

Reporting principles

Energy consumption per energy carrier

Total energy consumption in Hydro was 54 TWh in 2017



Energy consumption includes Hydro produced as well as purchased energy in Hydro's consolidated activities. Hydro has a nominal production of 10 TWh hydroelectric power. For more information about Hydro's energy production, see page 107.

Hydro, excluding Extruded Solutions, does not purchase heating, cooling or steam, which is produced internally in Hydro and is reported as "other" energy consumptions. Extruded Solutions purchases steam and heat, but the volumes are minimal. Energy consumption includes energy losses in hydroelectric plants.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Energy consumption per energy carrier - consolidated activities

PJ	2017	2016	2015	2014	2013
Coal	15.2	15.2	13.5	14.6	13.0
Coke	18.5	18.7	18.5	18.0	18.6
Electricity	107.9	108.1	105.8	101.0	99.4
Natural gas	6.6	6.3	6.0	6.0	6.0
Natural gas liquids	1.2	1.8	1.3	1.7	1.7
Natural gas and liquids Extruded Solutions	8.7	8.6	8.8	8.4	7.4
Oil	30.9	31.1	30.9	29.6	27.8
Other	4.6	4.6	4.6	4.4	4.5
Total energy consumption in PJ	193.5	194.4	189.3	183.8	178.3
Total energy consumption in TWh	53.8	54.0	52.6	51.1	49.5

Energy consumption per sector - consolidated activities

PJ	2017	2016	2015	2014	2013
Bauxite and Alumina	48.2	48.9	46.4	46.6	43.2
Electrolysis/Carbon/Casting	119.4	120.4	116.4	113.5	113.0
Remelters	2.7	2.6	2.5	2.4	2.4
Rolled Products	4.1	4.3	4.3	4.2	4.5
Extruded Solutions	13.7	13.4	14.9 ²⁾	13.0	11.5
Other	5.4	4.8	4.8	4.1	3.8
Total energy consumption	193.5	194.4	189.3	183.8	178.3

Energy consumption per country - consolidated activities

PJ	2017	2016	2015	2014	2013
Brazil ¹⁾	81.1	80.9	78.0	78.2	75.5
Germany ¹⁾	16.5	16.4	16.1	15.5	15.2
Norway ¹⁾	67.9	69.4	66.3	63.3	62.3
Slovakia ¹⁾	12.1	12.1	11.9	11.8	11.6
Extruded Solutions	13.7	13.4	14.9 ²⁾	13.0	11.5
Other ¹⁾	2.3	2.2	2.1	2.0	2.0
Total energy consumption	193.5	194.4	189.3	183.8	178.3

1) Excluding Extruded Solutions

GRI-reference: GRI Standards 302-1

The production of alumina and primary aluminium has increased steadily, see note E7.

E3.2 Energy intensity*Reporting principles*

Energy intensity in Alunorte is calculated based on total energy consumption in Alunorte divided by total alumina production.

Energy intensity in Hydro's consolidated smelters is direct current consumption in the electrolysis process per kg aluminium.

Note E4 - Other resource use**E4.1 Materials***Reporting principles*

Covers major raw materials used in the alumina refining process and electrolysis process beyond what is included in the energy consumption data.

Alumina and aluminium fluoride are primarily used in the electrolysis process, whilst lime, sodium hydroxide, sulfuric acid and flocculants are primarily used in the alumina refining process. Flocculants are also used at Paragominas.

The use of lime, sodium hydroxide and sulfuric acid varies with the production of alumina, see note E7. The use of sulfuric acid depends also on the amount of rainfall and management of lye (of sodium hydroxide) at Alunorte.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Materials

1 000 metric tons	2017	2016	2015	2014	2013
Alumina	3 353	3 331	3 256	3 153	3 111
Aluminium fluoride	31	32	33	31	29
Lime	62	60	57	60	52
Sodium hydroxide (caustic soda)	662	652	604	624	537
Sulfuric acid	27	26	17	26	21
Flocculants	7	6	5	5	4

GRI-reference: GRI Standards 301-1

E4.2 Water*Reporting principles*

Some water loss to the external environment will occur as evaporation and/or steam. This water loss is not included in the figures below, which assume that water discharged is equal to water withdrawn. The quality of water discharge generally comply with local or site specific permits before discharge to local water recipients.

Extruded Solutions does not report water withdrawal by source nor discharge by destination, and is not included in the respective tables below. The majority of Extruded Solutions' sites has a closed loop water management system, and the water use is marginal compared to the rest of Hydro. The majority of water use in Extruded Solutions takes place in Oregon in USA, and in Sweden.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Total water withdrawal by country

Million m ³	2017	2016	2015	2014	2013
Brazil ¹⁾	35.82	33.25	32.77	31.90	32.39
Germany ¹⁾	2.14	2.02	2.08	2.08	2.01
Norway ¹⁾	193.54	193.74	194.61	184.38	197.77
Extruded Solutions	9.59 ²⁾	5.85	5.12	5.75	5.37
Other ¹⁾	0.73	0.67	0.64	0.73	0.69
Total	241.82	235.52	235.22	224.83	238.23

1) Excluding Extruded Solutions

2) The increase in water use in Extruded Solutions in 2017 is mainly related to purchase of The Dalles Cast in Oregon, USA.

Total water withdrawal by source - excluding Extruded Solutions

Million m ³	Total 2017	Brazil	Germany	Norway	Other	Total 2016
Surface water (fresh water)	65.99	16.50	0.00	49.43	0.06	61.46
Surface water (sea water)	143.51	0.00	0.00	143.51	0.00	148.43
Ground water	14.81	12.72	2.06	0.00	0.03	13.56
Municipal water	1.31	0.00	0.07	0.60	0.63	1.59
Rain water	6.61	6.60	0.01	0.00	0.00	4.64
Total water withdrawal by source	232.23	35.82	2.14	193.54	0.73	229.68
Re-used water	22.99	11.76 ¹⁾	0.00	11.23	0.00	22.21
Re-used water as a percentage of fresh water withdrawal	26%	33%	-	22%	-	27%

1) Alunorte uses waste-water from another organization, Paragominas. GRI-reference: GRI Standards 303-1 and GRI Standards 303-3

Excluding Extruded Solutions, almost 85 percent of Hydro's total water withdrawal occurs in Norway from fjords (sea water) and rivers (fresh water) that supply these fjords. These water sources are vast and are not significantly affected by Hydro's operations. All sea water withdrawal in Norway is used in fume treatment plants enabling the primary production smelters to clean dust, SO₂ and fluoride emissions to air. Sea water absorbs the pollutants and mitigates the environmental impact from the production process. Around 7 percent of Hydro's total water withdrawal comes from the Parariquara river in Brazil and is used to supply the mine in Paragominas. The maximum withdrawal from this river is subject to restrictions to protect the ecological flow downstream.

Withdrawal from water-stressed areas

Million m ³	2017	2016	2015	2014	2013
Total water withdrawal from water-stressed areas ¹⁾	0.38	2.19	2.28	2.30	2.20

1) Historical figures have not been updated using the new version of the WBCSD tool. Furthermore, Extruded Solutions is not included in the historical figures.

GRI-reference: GRI Standards 303-1 and GRI Standards 303-2

Hydro uses the WBCSD global water tool to analyze water withdrawal from water stressed areas. For 2017 we have included Extruded Solutions and used an updated version of the tool (2015). Following the update of the WBCSD global water tool, Rolled Products' sites in Germany are no longer classified as water-stressed, which reduced the amount of water withdrawal from water-stressed areas significantly.

The mapping of Hydro's sites using the WBCSD global water tool in 2017 showed that 0.38 million m³ water of our overall freshwater input came from water-stressed areas, with regard to annual renewable water supply (according to the definition used by WBCSD).

Total water discharge by destination - excluding Extruded Solutions

Million m ³	Total 2017	Brazil	Germany	Norway	Other	Total 2016
River	43.14	25.24	0.02	17.88	0.00	35.79
Sea	174.08	0.00	0.00	174.08	0.00	176.02
Sewage	0.76	0.00	0.05	0.32	0.39	0.77
Cooling water to river	1.56	0.00	1.56	0.00	0.00	1.41
Other (not specified)	12.40	10.58	0.51	1.26	0.31	15.66
Total water discharge by destination	232.20	35.82	2.14	193.54	0.70	229.64

GRI-reference: GRI Standards 306-1

E4.3 Recycling

Reporting principles

Hydro uses a definition for recycling agreed on by the European Aluminium Association. The definition was implemented in Hydro in 2013. The definition divides recycled scrap in two: process scrap, which includes pre-consumer scrap from downstream casthouses, and post-consumer scrap. The change in definition makes recycling volumes later than 2013 incomparable with previous years. Reporting of recycling data is drawn from the company's production software and ERP system.

The figures do not include Hydro's share of scrap recycled by Extruded Solutions. We will work to harmonize the differentiation between post-consumer and pre-consumer scrap in 2018.

The numbers include Hydro's share of scrap recycled by Alunorf, Germany (owned 50 percent), and also Hydro's share of pre-consumer scrap from Qatalum and Slovalco. Qatalum does not have recycling facilities for post-consumer scrap.

Recycling - excluding Extruded Solutions

1 000 metric tons	2017	2016	2015 ¹⁾	2014	2013 ²⁾
Recycled post-consumer scrap	152	138	134	111	151
Recycled pre-consumer scrap	1 105	1 078	990	981	1 038
Total recycled metal	1 257	1 215	1 123	1 092	1 189

1) Volumes from Slim (divested at year-end 2015) are included up till 2015

2) Figures from 2013 include 74,000 mt pre-consumer and 25,000 mt post-consumer scrap from Extruded Products. Extruded Products became part of Sapa 1 September 2013

While Extruded Solutions uses significant amounts of remelted pre-consumer scrap, we are still lacking an overview that is comparable with Hydro's definitions.

Note E5 - Waste

E5.1 Tailings and bauxite residue

Reporting principles

Tailings from bauxite extraction consist of mineral rejects from the extraction process mixed with water. The tailings at Paragominas are stored in dedicated tailings dams, where the particles settle. Paragominas is Hydro's only consolidated mine.

Bauxite residue, also known as red mud, is a by-product of the alumina refining process. The residue is washed with water to lower the alkalinity, and recovered caustic soda is recycled for use in the production process. Residue is dry-stacked as a clay-like substance with a low moisture content (for more information see page 43-45).

Tailings and bauxite residue

1 000 metric tons ¹⁾	2017	2016	2015	2014	2013
Tailings	4 067	4 117	4 128	4 333	3 313
Bauxite residue (red mud)	5 979	6 426	5 973	6 069	5 415

1) On a dry basis

GRI-reference: G4-MM3

The tailings generated in the bauxite's beneficiation process have no hazardous properties, thus it is not necessary to line the tailing dams.

As a control measure, static water pressures within the walls of our tailings dam at Paragominas are monitored through the use of dedicated instrumentation (piezometers).

E5.2 Hazardous waste and other waste

Reporting principles

Waste is reported as specified according to the EU waste directive/waste catalog. During 2015 and 2016, Primary Metal reviewed their waste reporting practices including classification of bi-products, resulting in even better standardization across business sites. Due to changes in reporting practice, the 2016 and 2015 figures are not directly comparable with previous years. Also within Bauxite & Alumina waste reporting was improved in 2016 and 2015, and are not comparable with previous years, and are thus not included.

Spent potlining (SPL) from the electrolysis cells used in primary aluminium production is defined as hazardous waste. The production of spent potlining varies with the relining of smelter cells which is normally done every 4-7 years for established smelters. New plants will get a relining peak at the same interval after start-up. See also SPL figures on a five year rolling average on page 53.

A significant amount of Extruded Solutions hazardous waste is in the form of spent caustic produced following the die cleaning process with a large proportion of this recycled. There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Hazardous and other waste

1 000 metric tons	2017	2016	2015
Spent potlining	39.9	33.8	41.9
Other hazardous waste	218.0	209.1	219.7
Total hazardous waste ¹⁾	257.9	242.8	199.8
Other waste	388.8	338.7	350.5
Total waste	646.8	581.6	612.1

1) Total hazardous waste according to Basel convention. GRI-reference: GRI Standards 306-4

E5.3 Waste treatment

Reporting principles

Waste sorted by treatment includes external and internal treatment. Tailings and bauxite residue are deposited in appropriately engineered and managed on-site landfills and are not included in the table below. Combustion without energy recovery is included under Other treatment. There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

Treatment of hazardous waste

	2017	2016	2015
Energy recovery	8%	9%	10%
Landfill	39%	39%	36%
Other treatment	13%	9%	8%
Reuse/recycling	41%	44%	46%

Treatment of other waste

	2017	2016	2015
Energy recovery	4%	3%	3%
Landfill	46%	39%	45%
Other treatment	4%	9%	9%
Reuse/recycling	45%	48%	43%

GRI-reference: GRI Standards 306-2

Note E6 - Biodiversity

E6.1 Overburden moved

Reporting principles

Total volume (in million metric tons) of overburden moved in Hydro's Paragominas mine in Brazil. This is the only mine within Hydro's consolidated operations.

Overburden moved

Million metric tons	2017	2016	2015	2014	2013
Overburden moved	83	83	70	78	71

GRI-reference: G4-MM3

Hydro uses strip mining in Paragominas, a technique that avoids the formation of an overburden stockpile. Thus, all overburden moved for mining purpose is used to reconstruct the topography of the strip previously mined, prior to rehabilitation of the mined areas. Part of the overburden (laterite) is also used for paving roads and for raising the heights of existing tailing dams and constructing new ones.

The sterile soil is untreated and has no dangerous properties. Leaching potential due to overburden removal is negligible. There is a water resource management program in place to mitigate silting from the plateau areas.

E6.2 Land use and rehabilitation

Reporting principles

Hydro's only consolidated mining operation is in Paragominas in Brazil. Areas are measured using the ArcGIS Platform. The rehabilitation data are reported to DNPM (the Brazilian Federal Mining Agency) and SEMAS (the environmental authority of Pará), as part of the *clearing* permit renewal process.

In our mining operation we strive for a year-on-year balance between the area that we mine and make available for rehabilitation every year and the area that we succeed in rehabilitating every year. From 2018 this target will be a rolling average across two hydrological seasons. The 2020 target of closing the historical rehabilitation gap remains unchanged.

The mining cycle is made up of several steps. When a given area of land is to be developed, the first step is clearing, when vegetation and soil is removed. The area is then classified as *area cleared for future mining*. After an area is mined, it is either classified as *temporary infrastructure* or a *emerging rehabilitation gap*. All rehabilitation gaps will be rehabilitated as soon as possible and subsequently classified as *rehabilitated area*. The status of any area may change, e.g. if rehabilitation is not successful or when tailings dams (infrastructure) are closed, they will be available for rehabilitation after settling for minimum five years. We will then get a significant increase in the emerging rehabilitation gap. There may be additional movements between different statuses from year to year due to reclassification.

During 2017, we cleared 328 hectares (ha). We mined 410 ha of which 259 ha were then dedicated to the new tailing ponds and other temporary infrastructure. As a result, a total of 151 ha were mined and subsequently made available for rehabilitation during 2017. During the same year, Paragominas succeeded in rehabilitating 185 ha – exceeding its 1:1 rehabilitation target for 2017 (See page 85-86).

The clearing, mining and rehabilitation cycles are constantly ongoing and are not synchronized. Clearing and mining are at their peak in the dry season, whilst rehabilitation happens primarily in the wet season. The three cycles are also influenced by different drivers such as permits for the clearing cycle, available land for rehabilitation, and rainfall for the rehabilitation cycle. As a result, there is no direct link between the area cleared every year and the area mined or rehabilitated that same year (e.g. an area cleared in 2017 may be mined late 2018 and then rehabilitated in the 2019 wet season). Due in large part to this complexity, the figures presented above for 2017 can not be directly deducted from the figures in the land use and rehabilitation table below.

All areas stated in the table below give a snapshot of Paragominas' land use at year end. From 2017, we have reported both the emerging and historical rehabilitation gap.

Land use and rehabilitation - Paragominas

Hectares per given point in time	2017	2016	2015	2014	2013
Permanent infrastructure	2 447	2 447	2 447	2 447	2 447
Temporary infrastructure	1 918	1 705	1 397	1 034	830
Area cleared for future mining	257	364	424	458	71
Rehabilitated area	1 872	1 689	1 509	1 231	707
Emerging rehabilitation gap	111	239	299	564	933
Historical rehabilitation gap ¹⁾	8				
Total area affected	6 613	6 444	6 076	5 734	5 629

1) The historical rehabilitation gap refers to the one inherited from Vale. Historical figures are not available

GRI-reference: G4-MM1

Hydro's mining site, Paragominas, in the Brazilian state of Pará measures 18,763 hectares (ha), while the land use at the end of 2017 was 6,613 ha.

There are specific closure plan requirements for the Paragominas mine (rehabilitation of mine and tailing ponds). In addition there is a similar requirement for the bauxite residue disposal at Alunorte. Hydro has a dedicated corporate function which oversees legacy issues and addresses closure issues. For the time being such plans are further developed on an ad hoc basis when relevant.

E6.3 Endangered species

Reporting principles

Hydro uses a federal database updated by ICMBio researchers to classify species. The conservation status of species registered in the reference databases can change. As a result, the species list is updated and species added, removed and/or moved from one status to another. Reported species are cumulative and represent all species observed within the premises of Hydro's mining activities in Paragominas, Brazil, since monitoring and registration started in 2003. Some species included in the overview are covered by more than one database and the numbers can therefore not be summed across the columns. In addition, each database is stand alone and they are therefore not comparable.

Endangered species registered within the influence area of Hydro's mining activities (Paragominas)

Conservation status	MMA ¹⁾		SEMAS ²⁾		IUCN ³⁾	
	Fauna	Flora	Fauna	Flora	Fauna	Flora
Critically endangered	3	1	2	1	2	1
Endangered	8	0	6	0	3	1
Vulnerable	27	1	7	3	17	14
Threatened	0	0	0	0	0	0
Near threatened	1	0	0	0	13	0
Data deficient	0	2	0	0	2	0
Total according to each red list classification	39	2	15	4	37	16

1) Federal Brazilian red list

2) Pará state red list

3) International Union for Conservation of Nature red list

GRI-reference: GRI Standards 304-4

In total 75 different species, including 57 fauna and 18 flora, are covered by the overview. The total number increased by ten in 2017, mainly due to the research effort by the Biodiversity Research Consortium Brazil-Norway. We are expecting the number of new, unique species to increase going forward as we move into new territory.

Note E7 - Production volumes

Reporting principles

The figures reported below are total production volumes (100 percent) from consolidated activities only (Hydro's ownership share exceeding 50 percent). Alumina production includes Alunorte while primary aluminium production includes 100 percent of production at all Hydro's primary aluminium plants in Norway, Neuss in Germany, Slovalco in Slovakia and Albras in Brazil. These volumes are not directly comparable to the volumes reported in the financial statements. Alumina and primary aluminium production are by far the most energy and GHG intensive processes in Hydro.

Production volumes

1 000 metric tons	2017	2016	2015	2014	2013
Alumina production	6 397	6 341	5 962	5 933	5 377
Primary aluminium production	1 752	1 744	1 705	1 615	1 583

Hydro's production based on ownership equity can be found under Operational review in the section Financial and operating performance in this report.

Note E8 - Environmental data for 50/50-owned companies

Hydro has an ownership share of 50 percent in Alunorf and Qatalum. As only operations owned more than 50 percent are included in most of the information in Hydro's viability performance statements, we have chosen to disclose certain environmental information about these companies and their performance. The reporting principles of each indicator might differ from the ones used by Hydro and in between the companies. For information about social data, see Note S14 to the social statements.

Environmental data for 50/50-owned companies

	Main product	Production, 1 000 metric tons	GHG emissions, scope 1, Million tons CO2e	GHG emissions, scope 2, Million tons CO2e	Total energy consumption, TWh	Fresh water used, Million m ³	Total waste disposed, metric tons	Total waste recycled, 1 000 metric tons
Alunorf	Rolled products	1 553 ¹⁾	0.26	0.43	2.09	1.30	2 304	86% ²⁾
Qatalum ³⁾	Primary aluminium	644	4.72	0.27	9.68	0.64	6 430	32

1) The tonnage at Alunorf includes 24 mt of sheet ingots

2) Recycling degree of total waste

3) Figures for Qatalum are taken from Qatalum's Sustainability Report 2016 and relates to 2016

Social statements

The table below shows Hydro's main indicators related to social performance. Indicators excluding Extruded Solutions is marked with footnote 4. For geographical distribution of total assets, investments and revenues, see note 7 to the consolidated financial statements.

Social performance*

	Notes	% change 2016-17	2017	2016	2015	2014	2013	GRI Standards reference
Employees								
Number of permanent employees	S1.1	168%	34 625	12 911	13 263	12 922	12 564	102-7
Share of women	S1.1	3.2 ¹⁾	16.8%	13.6%	13.1%	13.0 %	12.6%	
Number of temporary employees ²⁾	S1.2	30%	1 646	1 266	1 144	966	765	102-8
Women in top 50 management	S3.1	(1)% ¹⁾	28%	29%	30%	22%	25%	405-1
Non-Norwegians in top 50 management	S3.1	5% ¹⁾	37%	32%	36%	35%	35%	405-1
Employees excluding Extruded Solutions								
Full-time equivalents for contractor employees ⁴⁾	S1	(5)%	9 000	9 500	7 700	6 600	7 000	102-8
New employees ⁴⁾	S1.3	12%	736	658	884	976	382	401-1
Turnover ⁴⁾	S1.3	(0.2) ¹⁾	4.4%	4.6%	4.7%	6.4%	5.6%	401-1
Hydro Monitor Employee Engagement Index	S4		-	83%	-	73%	-	
Payroll (NOK million) ⁴⁾	S1.1	9%	7 258	6 681	6 323	6 498	5 681	201-1
Health and safety								
	S5							
Sick leave	S5.1	(0.9) ¹⁾	3.4%	4.3%	4.0%	3.8%	3.7%	403-2
Total recordable injuries (TRI) rate ³⁾	S5.1	12%	2.9	2.6	3.0	3.4	3.8	403-2
Employees		19%	3.1	2.6	3.0	3.2	3.4	
Contractors ⁴⁾		(4)%	2.5	2.6	3.1	3.8	4.9	
Number of fatal accidents	S5.1		2	0	1	0	1	403-2
Employees			1	0	1	0	0	
Contractors			1	0	0	0	1	
High risk incidents	S5.2	65%	127	63	83	96	132	403-2
Occupational illness rate ⁴⁾	S5.3	(57)%	0.3	0.7	1.0	1.5	1.7	403-3
Current income tax (NOK million)								
	S7	30%	2 575	1 988	1 414	1 605	1 425	
Research and Development (NOK million)								
R&D funds received ⁴⁾	S8	34%	62	46	51	66	55	201-4
R&D expenses	S8	35%	500	370	330	277	216	
Social investments								
Community investments, charitable donations and sponsorships (NOK million) ⁴⁾	S9	29%	36	28	30	24	27	
Compliance								
	S10							
Cases reported through AlertLine Hydro excl. ES	S10.1	(29)%	123	173	83	60	60	102-3
Cases reported through AlertLine Extruded Solutions	S10.1		179					
Confirmed instances of corruption	S10.1	-	0	0	0	0	0	205-3
Confirmed human rights breaches	S10.1	-	0	0	0	0	0	0 406-1/407-1/408-1/409-1
Relocation of people	S10.3	-	0	0	0	0	0	G4-MM9
Training in business ethics Hydro excl. ES	S10.4	(27)%	3 331	4 561	2 244	3 570	1 050	412-2/205-2
Training in business ethics Extruded Solutions			4 832					
Training in competition law ⁴⁾	S10.4	45%	293	202	1 093	44	150	205-2
Training in cyber security Hydro excl. ES	S10.6		545⁵⁾	5 448				
Training in cyber security Extruded Solutions			12 284					
Supplier audits ⁴⁾	S10.5	(11)%	109	123	129	61		HDD-01
Potential and existing counter parties screened ⁴⁾	S10.5	54%	6 200	3 700	1 800			414-1

Figures in brackets indicate a decrease.

- 1) Values are given as percentage points compared to previous year
- 2) There may be uncertainties related to data from Extruded Solutions, please see section on Uncertainties related to data from Extruded Solutions in About the reporting
- 3) Per million working hours. The numbers include discontinued operations
- 4) Excluding Extruded Solutions
- 5) Only line managers were invited to participate. Line managers further informed their teams

Notes to the social statements

General reporting standards and principles

Data relating to health, safety and work environment have been prepared by individual reporting units in accordance with corporate procedures. This applies to all Hydro's operations, including consolidated subsidiaries, if not otherwise stated. Such data are based on the corporate reporting system for incident reporting, Synergi. All organizational units, except Extruded Solutions, report incidents to the Synergi system on a regular basis in accordance with a corporate procedure on HSE incidents and sick leave data. Other employee data, including sick leave in Norway, are primarily based on the company's human resources SAP system. Health and safety data for Extruded Solutions have been collected through Sapa's systems. Employee data are reported based on Hydro's SAP system. The definitions have been reviewed, and the most relevant figures are possible to consolidate, unless otherwise stated. In 2018, we will work to further harmonize the health, safety and work environment reporting, and strive to improve the data quality in the company's human resources SAP system.

There is some uncertainty related to Extruded Solutions' historical data, as a result the data may be revised in the future.

The reporting methodology will follow Hydro's principles, unless otherwise stated. Employee data are reported at the end of year. Extruded Solutions' data for health and safety have been included from closing 2 October 2017.

Employment figures for Extruded Solutions are presented according to geography. Other figures, e.g. health and safety figures for Extruded Solutions are presented by business units; Extrusion Europe, Extrusion North America, Building Systems and Precision Tubing. The majority of the sites in Extrusion North America are located in USA, Building Systems in Europe, and for Precision Tubing the majority of sites are located in Asia.

Where applicable, we have indicated to which GRI Standards disclosure the different notes or parts of the notes are applicable. Please also see the social statements on the previous page for more such information.

Note S1 - Employees

Reporting principles

Data for Hydro's permanent and temporary employees are based on Hydro's human resources SAP system. Data presented represent status at year end, December 31, and include permanent employees only unless otherwise stated. Payroll is based on Hydro's consolidated financial statements. Payroll, as provided in the table below, does not include pension costs. Comparable payroll data for all of 2017 are not available for Extruded Solutions. For 2018, we strive to report payroll data also including Extruded Solutions.

Temporary employees include among others apprentices, but exclude contractor employees. Legal requirements and customs may vary from country to country, making direct comparison difficult.

Number of full-time equivalents of contractor employees as included in the social statements is estimated based on the total hours worked by contractor employees (reported in Hydro's incident reporting system Synergi as basis for calculation of injury frequency) divided by 1850 working hours per year. Contractor employees excluding Extruded Solutions, represented in total about 9,000 full-time equivalents during 2017. The majority relates to Hydro's Bauxite & Alumina activities. Extruded Solutions will start reporting on the number of contractor employee hours from 2018, and the number is estimated to be low.

Through Extruded Solutions, Hydro has received a number of temporary workers employed by agencies. We will in 2018 map the extent of such use.

Comparable figures for new employees and turnover are not available for Extruded Solutions for 2017, and is reported for Hydro excluding Extruded Solutions.

There may be uncertainties related to data from Extruded Solutions, please see the relevant section in About the reporting.

S1.1 Permanent employees by region, gender and age as well as payroll

Permanent employees by region and payroll - excluding Extruded Solutions

	Number of employees ¹⁾					Payroll (NOK million) ²⁾				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Norway	3 791	3 689	3 653	3 613	3 355	3 220	3 001	2 920	2 579	2 508
Germany	3 609	3 555	3 450	3 378	3 462	2 256	2 201	2 040	1 834	1 682
Slovakia	498	490	501	492	481	101	94	87	82	77
Other Europe	284	245	632	614	633	100	129	254	238	242
Total Europe	8 182	7 979	8 236	8 097	7 931	5 677	5 425	5 301	4 733	4 509
Brazil	4 855	4 743	4 830	4 631	4 443	1 166	986	905	1 133	1 076
Rest of the world	210	189	197	194	190	415	270	117	90	96
Total	13 247	12 911	13 263	12 922	12 564	7 258	6 681	6 323	5 956	5 681

1) Number of employees is based on where the employee is actually stationed, and will in some cases differ from the Country-by-country report, which shows in which legal company she or he is employed

2) The joint operations Alunorf, Aluchemie and Skatså are excluded from the payroll figures in the table above. Those entities are included in Hydro's financial statements on a line-by-line basis. Please see note 2 to the consolidated financial statements for more information about joint operations

GRI-reference: GRI Standards 201-1 and GRI Standards 102-8

Permanent employees by region and gender

Region and gender	2017	2016	2015	2014	2013
Norway	3 962	3 689	3 653	3 613	3 355
Women	20%	19%	19%	18%	18%
Men	80%	81%	81%	82%	82%
Germany	4 861	3 555	3 450	3 378	3 462
Women	12%	10%	10%	10%	9%
Men	88%	90%	90%	90%	91%
France	1 829				
Women	16%				
Men	84%				
Hungary	1 540				
Women	24%				
Men	76%				
Other Europe	8 864	735	1 133	1 106	1 114
Women	21%	11%	13%	13%	14%
Men	79%	89%	87%	87%	86%
Total Europe	21 056	7 979	8 236	8 097	7 931
Brazil	5 227	4 743	4 830	4 631	4 443
Women	12%	13%	12%	12%	11%
Men	88%	87%	88%	88%	89%
USA	5 954				
Women	14%				
Men	86%				
Asia	1 372				
Women	20%				
Men	80%				
Rest of the world	1 016	189	197	194	190
Women	15%	23%	23%	26%	24%
Men	85%	77%	77%	74%	76%
Total	34 625	12 911	13 263	12 922	12 564
Women	17%	14%	13%	13%	13%
Men	83%	86%	87%	87%	87%

Hydro acquired Sapa in October 2017, and the number of permanent employees increased by 21,378. There were no other major changes to the organizational structure during 2017.

Age distribution permanent employees

Age distribution	2017	2016	2015	2014	2013
Under 30	15%	12%	13%	13%	13%
30-50	52%	54%	55%	56%	58%
50 +	32%	33%	32%	31%	29%

GRI-reference: GRI Standards 405-1 and G4-EU15

S1.2 Employees by employment type and part-time employees**Total employees by employment type**

Employment category	2017	2016	2015	2014	2013
Permanent employees ¹⁾	34 625	12 911	13 263	12 922	12 564
Temporary employees	1 646	1 266	1 144	966	765
Women	23%	27%	27%	23%	21%
Men	77%	73%	73%	77%	79%

1) For gender split of permanent employees, see Note S1.1

GRI-reference: GRI Standards 102-8

In Brazil the share of women among temporary employees is 31 percent, in Norway 24 percent and Germany 17 percent. Temporary employees include apprentices.

Part-time employees include all persons being employed in positions that are not full-time (less than 100 percent).

Part-time employees

Part-time employees ¹⁾	2017	2016	2015	2014	2013
Norway	1.9%	2.0%	2.4%	3.2%	2%
Women	5.6%	3.5%	7.7%	10.4%	6%
Men	1.0%	1.6%	1.2%	1.6%	1%
Total employees	1.6%	1.2%	1.4%	1.6%	1%
Women	6.2%	5.7%	10.2%	8.6%	6%
Men	0.6%	0.6%	0.4%	0.5%	-

1) Data for 2017 includes 98 percent of Hydro's permanent employees globally. We are working to further improve the reporting.

GRI-reference: GRI Standards 102-8

Hydro employees normally work full-time. The opportunity to work part-time is considered a benefit for which a special application must be made.

S1.3 New employees and turnover

New employee hires by age group, gender and country - excluding Extruded Solutions

Region and gender	Age								
	2017				2016				2015
	Total	Under 30	30-49	50+	Total	Under 30	30-49	50+	Total ¹⁾
Brazil	393	153	217	23	235	75	144	16	595
Women	9%	11%	8%	4%	19%	20%	20%	6%	13%
Men	91%	89%	92%	96%	81%	80%	80%	94%	87%
Germany	90	33	52	5	186	73	85	28	85
Women	12%	14%	12%	0%	12%	12%	13%	11%	9%
Men	88%	86%	88%	100%	88%	88%	87%	89%	91%
Norway	154	44	87	23	167	79	75	13	104
Women	35%	45%	32%	17%	23%	23%	23%	23%	27%
Men	65%	55%	68%	83%	77%	77%	77%	77%	73%
Other	123	36	70	17	70	30	32	8	100
Women	28%	11%	37%	29%	13%	10%	19%	-	7%
Men	72%	89%	63%	71%	87%	90%	81%	100%	93%
Grand total	760	266	426	68	658	257	336	65	884
Women	17%	18%	17%	14%	17%	18%	19%	11%	14%
Men	83%	82%	83%	86%	83%	82%	81%	89%	86%

GRI-references: GRI Standards 401-1, G4-EU15

The employee turnover rate includes resignations, retirements and manning reductions, but excludes closures and divestments.

Employee turnover by age group, gender and country - excluding Extruded Solutions

Region and gender	Age								
	2017				2016				2015
	Total	Under 30	30-49	50+	Total	Under 30	30-49	50+	Total
Brazil	6.2%	4.7%	5.5%	11.4%	6.4%	4.5%	5.5%	13.1%	7.4%
Women	8.9%	6.0%	8.7%	25.0%	7.1%	6.1%	6.4%	17.9%	8.7%
Men	5.8%	4.4%	5.0%	10.7%	6.3%	4.2%	5.4%	12.8%	7.2%
Germany	1.7%	1.1%	0.9%	2.7%	1.7%	2.1%	0.7%	2.8%	2.4%
Women	1.5%	0.0%	1.1%	2.3%	2.1%	3.3%	0.6%	3.9%	1.6%
Men	1.7%	1.2%	0.9%	2.7%	1.6%	1.9%	0.7%	2.6%	2.5%
Norway	3.9%	2.9%	1.4%	6.6%	4.1%	3.1%	1.8%	6.6%	3.4%
Women	4.0%	7.2%	2.0%	5.8%	4.1%	6.3%	2.3%	6%	2.7%
Men	3.9%	1.5%	1.3%	6.7%	4.1%	2.1%	1.7%	6.7%	3.6%
Other	7.2%	15.6%	6.9%	5.5%	8.3%	17.2%	5.3%	10.9%	5.1%
Women	2.4%	16.7%	2.9%	0.0%	8.0%	25%	4.2%	12.8%	5.2%
Men	8.0%	15.6%	7.6%	6.4%	8.3%	16.9%	5.4%	10.6%	5.1%
Grand total	4.4%	4.3%	3.5%	5.9%	4.6%	4.5%	3.4%	6.7%	4.7%
Women	5.1%	5.9%	4.6%	5.5%	5.0%	6.1%	3.7%	7.1%	4.7%
Men	4.3%	4.0%	3.3%	5.9%	4.6%	4.2%	3.4%	6.7%	4.7%

GRI-reference: GRI Standards 401-1

While we currently do not have consolidated data for turnover in Extruded Solutions, we are aware that the turnover is high in certain countries, in particular in USA. In the USA, we have implemented a variety of improvement actions (e.g. employee onboarding, mentoring, wage structure changes) all directed toward reducing turnover. We see a positive trend, but heightened attention continues.

Note S2 - Remuneration

Reporting principles

Data on gender related salary differences is based on local salary systems. Data on "highest paid employee" is based on note 9 in Hydro's consolidated financial statements for Norway and Brazil.

S2.1 Gender related salary differences

All employees shall receive a total salary that is fair and competitive and in accordance with the local industry standard. Salaries in the organization are reviewed on a regular basis. We have checked salary conditions in Brazil, Germany and Norway for Hydro's operations excluding Extruded Solutions. There are no significant gender-pay differentials for employees earning collective negotiated wages. We do not yet have a similar overview of Extruded Solutions.

Following the Sapa acquisition, we do not yet have the full overview for other significant countries of operation, mainly USA and Germany.

S2.2 Highest paid employee

Highest paid employee includes fixed salary, pension, health insurance (Brazil only) and other benefits, but excludes bonuses. Any severance pay is excluded from the highest paid employee- calculations to ensure consistency.

Highest paid employee per country

NOK thousand	Highest paid employee			
	% change 2016-17	2017	2016	2015
Brazil	15%	5 058	4 393	4 629
Norway	16%	10 744	9 268	14 300

GRI-reference: GRI Standards 102-38 and GRI Standards 102-39

Please see note 9 to the Consolidated financial statements for more information.

S2.3 Standard entry level wage

Entry level wages have been checked for Hydro, excluding Extruded Solutions. In Brazil, entry level wages are controlled by the labor agreement. The ratio compared to national minimum wage was in 2017 both for women and men 1.23 in Barcarena and 1.86 in Paragominas. In Germany and Norway the entry level wages are defined by tariff agreements. In the Norwegian operations, minimum entry wage is about 11 percent higher than the tariff minimum. In the German operations, the entry wage is 74 percent higher than the countrywide tariff minimum wage. There are no significant gender-pay differentials for employees earning collectively negotiated wages. We do not yet have a similar overview of Extruded Solutions.

GRI reference: GRI Standards 202-1

Note S3 - Diversity in management

S3.1 Women and non-Norwegians in management

Reporting principles

Diversity data for the board of directors and Corporate Management Board (CMB) for Norsk Hydro ASA are counted per year end. Diversity data for "Top 50 managers" include level 1 and 2 managers, i.e. the members of CMB and the members of the management teams at the level below CMB. At year end 2017 this included 103 persons. For "Top 200 managers", the data are based on the list of persons invited to the Hydro Summit in December 2017, in total 267 persons. The Hydro Summit is an annual meeting for top management in Hydro. The participants are nominated by the line organization.

Diversity in management

	Women					Non-Norwegians				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Board of directors (9 members) ¹⁾	33%	30%	30%	30%	27%	22%	20%	20%	20%	27%
Corporate assembly	33%	39%	39%	35%	35%	-	-	-	-	-
Corporate Management Board	40%	44%	44%	29%	29%	20%	11%	11%	29%	14%
Top 50 managers	28%	29%	30%	22%	25%	37%	32%	36%	35%	35%
Top 200 managers	21%	25%	24%	22%	23%	51%	45%	48%	43%	44%

1) With three women among the six shareholder elected members in the board of directors, Hydro complies with Norwegian legal requirements. All three employee representatives in the board of directors are men

GRI-reference: GRI Standards 405-1

S3.2 Local representation in senior management

Reporting principles

Senior management is defined as the management group at each site (site managers and those reporting to them) in addition to business area management teams. *Local* is defined at country level for Norway and Germany, and at state level for Brazil.

Data for Extruded Solutions are not available for 2017.

Local representation in senior management - excluding Extruded Solutions

Share of senior management hired from local community	2017	2016	2015	2014	2013
Norway					
Production sites in Norway	100%	100%	100%	100%	100%
Primary Metal management team	90%				
Corporate management board	80%				
Germany					
Grevenbroich plant	100%	100%	100%	100%	100%
Rolled Products management team	55%	55%	69%	80%	80%
Brazil					
Paragominas, Pará	9%	11%	18%	23%	33% ¹⁾
Barcarena, Pará	15%	21%	26%	29%	33% ¹⁾
Belem main office, Pará	17%	11%	10%	33%	N/A ²⁾

1) In 2013, only combined figures were reported for Paragominas and Barcarena, equal to 33 percent

2) Belem main office in Pará was established in 2014

GRI-reference: GRI Standards 202-2

Of the ten members of the Bauxite & Alumina management team in Brazil, half are Brazilian citizens.

Hydro employs locals when necessary competence and capacity are available and normally uses expatriates only to secure employee development and the transfer of values and competence. Open positions in Hydro are normally posted at hydro.com and in local media. To secure competence transfer, it is important that there are also senior employees with experience from other units. This may even be the case at the blue-collar level, especially during start-up of new plants or equipment.

Note S4 - Employee engagement

Reporting principles

Hydro Monitor is normally carried out for all employees every second year.

The *Employee Engagement Index (EEI)* measures the extent to which employees are motivated to contribute to organizational success, and are willing to apply discretionary effort to accomplishing tasks important to the achievement of organizational goals. The *Performance Excellence Index (PEI)* measures among other things to which degree systems and processes are in place.

The long-term ambition is to be among the top 25 percent companies worldwide on EEI (IBM External norm) which is currently equivalent to 78 percent. There is no external norm for the PEI index.

Hydro Monitor

	2017	2016	2015	2014	2013
Employee Engagement Index (EEI)	N/A	83%	N/A	73%	N/A
Women	N/A	85%	N/A	74%	N/A
Men	N/A	82%	N/A	73%	N/A
Performance Excellence Index (PEI)	N/A	82%	N/A	75%	N/A
Response rate	N/A	89%	N/A	92%	N/A

Hydro Monitor is a tool to work with organizational development, therefore the most important part is follow-up of agreed actions. All units had action plans by 1 October 2016, based on their survey results. The next Hydro Monitor survey will be run in April 2018 without Extruded Solutions, while the plan is to run another survey in 2019 including all of Hydro.

Sapa Engaged was Sapa's employee engagement survey, carried out in 2015 and 2017. The target group was all employees. In 2017, the response rate was 88 percent. The survey is not directly comparable with Hydro Monitor.

Sapa Engaged

	2017
Employee Engagement	70%
Women	71%
Men	70%
Response rate	88%

The main result of Sapa Engaged was measured as Employee Engagement, an index indicating employees' pride, advocacy, satisfaction and willingness to go beyond what is expected. Sirota was the service supplier. In addition to mapping engagement across the organization, the main ambitions has been to establish the engagement survey as a useful tool for organizational development. The 2017 survey indicated improvements related to scores for closest manager. This is assumed to be a direct result of Sapa's work to build basic behavioral leadership down to middle managers.

Note S5 - Health and safety

Reporting principles

Standardized statistics are prepared and reported to management on a monthly basis. Data covers all organizational units within Hydro, including sales offices and administrative functions. The definitions for health and safety statistics have been reviewed following the acquisition of Sapa in October, 2017. Following the review the figures from Hydro and Sapa (now Extruded Solutions) are comparable for 2017, unless otherwise stated. The number of hours worked for contractor employees are not available for Extruded Solutions in 2017, hence the figures are not split into employees and contractors for Extruded Solutions. From 2018, the definitions will be fully aligned, and contractor hours for Extruded Solutions will also be available.

Workers (own employees as well as contractor employees) are included during the period they are employed by or otherwise in service for Hydro. Consequently, Extruded Solutions is only included from 2 October 2017, see Reporting scope and limitations on page V2-V3.

S5.1 Total recordable injuries (TRI), Lost time injury (LTI) and sick leave

Total recordable injuries (TRI) index is calculated as the number of TRI per one million hours worked. TRI include LTI + RWC + MTC. *Lost time injury (LTI)* is a personal injury at work leading to unfitness for work and absence beyond the day of the accident. *Restricted work case (RWC)* is a personal injury at work that does not lead to absence beyond the day of the accident, because of alternative job assignment. *Medical treatment case (MTC)* is treatment, other than first aid, administered by a physician or registered professional personnel under the standing orders of a physician.

Employees are workers under direct supervision of Hydro.

Contractors are workers who are under contract to execute work for Hydro, and who are under the direct supervision of the contractor, but at Hydro premises under Hydro's indirect supervision.

Sick leave for Hydro globally includes all absence due to injuries, work related and other illness, measured as number of hours lost due to sick leave as percent of number of hours worked plus number of hours lost due to sick leave.

Sick leave, Norway includes all absence due to illness, measured as number of days lost due to sick leave as percent of number of possible working days excluding holidays.

There are challenges in ensuring consistent reporting practice on sick leave across the company due to legislative and cultural differences between countries.

Total recordable injuries, lost-time injuries, fatal accidents and sick leave

	2017	2016	2015	2014	2013
Total recordable injuries (TRI) ¹⁾	2.9	2.6	3.0	3.4	3.8
Employees	3.1	2.6	3.0	3.2	3.4
Contractors ⁴⁾	2.5	2.6	3.1	3.8	4.9
Lost-time injuries (LTI) ²⁾	2.07	0.9	1.2	1.3	1.7
Employees	1.37	1.2	1.4	1.5	2.0
Contractors ⁴⁾	0.59	0.6	0.9	1.1	1.0
Total fatal accidents (number of fatalities)	2	0	1	0	1
Employees	1	0	1 ³⁾	0	0
Contractors	1	0	0	0	1
Sick leave	3.4%	4.3%	4.0%	3.8%	3.7%
Sick leave, Norway ⁴⁾	4.0%	4.4%	4.3%	4.4%	5.1%
Women	4.7%	4.8%	4.9%	5.2%	6.6%
Men	3.8%	4.3%	4.2%	4.2%	4.8%

* The numbers include discontinued operations. Extruded Solutions are included from 2 October 2017.

1) Number of recordable injuries per million working hours.

2) Number of lost-time injuries per million working hours.

3) A Hydro employee became the victim of the Germanwings crash on business travel.

4) Excluding Extruded Solutions. Working hours for Extruded Solutions can not be split between employees and contractor workers.

GRI-reference: GRI Standards 403-2

A contractor employee lost his life in April 2017 when hit by a falling object at the Technology Pilot construction site at Karmøy in Norway. A Hydro employee lost his life in November 2017 in a falling incident at Hydro's extrusion plant in Phoenix, Arizona in USA. All fatalities in Hydro in recent years befell men.

Following internal investigations of the two fatalities, in combination with a review of similar processes and tasks conducted at all relevant production sites, led to various local improvements as well as to the decision on corporate level to create fatality prevention protocols. These are applicable across the entire company. Additionally, a more holistic in-depth assessment of the HSE organization and capabilities at two affected business areas was performed to understand better the as-is situation and verify the validity of the current HSE strategy, which was subsequently slightly adjusted.

Total recordable injuries (TRI) per region*

	2017	2016	2015	2014	2013
Norway ¹⁾	3.9	3.9	3.6		
Employees	3.1	3.0	2.8	1.5	2.4
Contractors	7.3	10.0	11.1	15.8	18.2
Germany ¹⁾	4.4	3.9	6.6		
Employees	4.6	3.5	5.7	7.0	4.9
Contractors	3.2	5.7	12.7	20.8	25.1
Brazil ¹⁾	2.0	1.8	1.8		
Employees	2.3	1.6	1.6	2.2	2.8
Contractors	1.8	1.9	1.9	2.4	4.1
Other countries ¹⁾	2.6	2.7	4.2		
Employees	2.6	3.3	3.6	3.7	3.8
Contractors	2.4	0.0	7.3	4.3	6.4
Extrusion Europe ²⁾	3.7				
Extrusion North America ²⁾ (mainly USA)	4.7				
Precision Tubing ²⁾ (mainly Asia)	1.7				
Building Systems ²⁾ (mainly Europe)	2.0				

*) Number of recordable injuries per million working hours. The numbers include discontinued operations. The TRI figures for Extruded Solutions cannot be split between employees and contractor workers.

1) Excluding Extruded Solutions

2) TRI result is included for the whole year. Normally, only the time a unit has been part of Hydro is included in the TRI rate. While we are not able to separate the figures for Extruded Solutions on geography, the separation on business units still gives an indication of geography.

GRI reference: GRI Standards 403-2

The most dominant types of injuries in 2017 were damages to fingers and hands, representing half of all recorded injuries. Injured legs, knees, ankles and feet represent around 20 percent while arms, elbows, shoulders and wrists represent 10 percent. Damages to face, eyes and head accounted for 10 percent of the recorded injuries. Hydro is not reporting these figures per gender as this can be in conflict with privacy protection considerations.

S5.2 High risk incidents (HRI)

High risk incidents include major accidents and incidents with major potential. The definition of high risk incidents has been very similar for Sapa and Hydro, and the figures are comparable for 2017. The definitions will be further harmonized from 2018. Extruded Solutions is included from 1 October 2017.

High risk incidents (HRI) rate is calculated as the number of high risk incidents per million hours worked, employees and contractors combined.

High risk incidents (HRI)

	2017	2016	2015	2014	2013
High risk incidents	127	63	83	96	132
HRI rate	2.53	1.57	2.07	2.68	2.14

GRI-reference: GRI Standards 403-2

S5.3 Occupational illness rate

Occupational illness rate measures incidents of diseases related to occupation. It is required as a minimum that all potential cases shall be reported. The majority of the reports are from our Norwegian sites, showing that there is room for further improvement in our global reporting. Development is tracked through a corporate reporting tool. Actual occupational illnesses are defined by Hydro as illnesses that

- Have been confirmed by relevant authorities/insurance companies or doctors (depending on the national system)
- Have lead to any kind of permanent disability, disablement pension, loss of function and/or are a listed occupational disease

For Extruded Solutions, there are no comparable data on occupational illness for 2017. Going forward, guidance has been established, and we aim to further harmonize the reporting on occupational illness rate.

Occupational illness rate - excluding Extruded Solutions

	2017	2016	2015	2014	2013
Occupational illness rate ¹⁾	0.3	0.7	1.0	1.5	1.7

1) Cases per million working hours. The numbers include discontinued operations. Our reporting processes do not yet ensure complete reporting, specifically outside Norway.

GRI-reference: GRI Standards 403-3

Most of the reported cases are related to noise. We use our proactive tool for work environment risk assessment to identify employees at risk of developing occupational illnesses and implement risk reducing measures e.g. substitution of hazardous chemicals, noise reduction, personal protective equipment to avoid development of new occupational illness cases. We have e.g. reduced the frequency of occupational illness cases related to noise and pot room asthma. The tool has also helped identifying occupational illnesses related to e.g. musculoskeletal and vibration disorders.

S5.4 - Wellness

Hydro is concerned about the wellness of our employees, and offers a variety of initiatives, that promote good physical and mental health.

The majority of Hydro's sites have wellness initiatives in place. Some examples of initiatives range from nutrition and weight management, tobacco cessation to managing work-life balance. The different sites offer wellness initiatives that address issues relevant for that site or region.

Note S6 - Labor rights

Reporting principles

The vast majority of operational sites within Primary Metal and Energy have established formal joint management-worker health and safety committees covering all employees. At certain sites, also contractor employees are included.

Hydro's major sites in Europe and Brazil are unionized. Extruded Solutions has a major presence in the USA, and about 60 percent of our US employees are working at a unionized site. In total, we estimate that 86 percent of all employees work at a unionized site. Learn more about dialogue with the employee representatives under Dialogue with affected parties on page 95.

In regions where unions are not allowed we are striving to establish alternative worker-management relations.

No strikes exceeding one week and no lock-outs took place in 2017, neither in Hydro nor in Sapa.

Note S7 - Current income tax

Reporting principles

Current income tax is based on Hydro's financial statements. Extruded Solutions is included from 2 October 2017.

Current income tax

NOK million	2017	2016	2015	2014 ¹⁾	2013
Norway	1 715	690	563	565	798
Germany	(9)	251	230	432	203
France	10	9	11	2	11
Slovakia	55	36	115	67	103
Sweden	46	-	-	-	-
Poland	22	-	-	-	-
Denmark	28	-	-	-	-
Austria	30	-	-	-	-
Other	35	18	47	29	18
Total EU	218	315	403	530	336
Switzerland	1	-	(15)	14	7
Other Europe	-	-	-	-	-
Total Europe	1 934	1 006	952	1 109	1 141
USA	24	16	14	-	-
Canada	150	87	6	113	148
Brazil	424	853	396	343	111
Asia	39	19	13	15	17
Other	4	7	33	25	13
Total outside Europe	641	982	462	496	288
Total	2 575	1 988	1 414	1 605	1 429

1) The joint operations Alunorf, Skafså Kraftverk, Tomago and Aluchemie are included in the figures above, but are not included in the other parts of the social or environmental statements, except for certain information in note E8 and S14. Those entities are included in Hydro's financial statements on a line-by-line basis. Please see note 2 to the consolidated financial statements for more information about joint operations.

GRI- reference: GRI Standards 201-4

Hydro is subject to income taxes in the countries where we operate. The nominal tax rates typically vary between around 20 and 35 percent. The effective tax rates may differ from the nominal tax rates, among other things as a result of differences in depreciation rates and other tax deductions.

- The marginal tax rate for our power production in Norway is 59.4 percent.
- Qatalum, a 50/50 joint venture with Qatar Petroleum, has been granted a 10 year exemption from income taxes in Qatar, expiring in 2020. Thereafter, Qatalum will pay income tax at the generally applicable income tax rate in Qatar.
- The general corporate income tax rate in Brazil is 34 percent. Hydro's bauxite, alumina and aluminium operations in Brazil have been granted income tax incentives encouraging investments in the northern provinces of Brazil, reducing the tax rate on operating income to between 20 and 34 percent. In addition, Hydro's operations in Brazil are subject to a number of significant indirect taxes.
- Hydro is present in some countries with a tax rate below 10 percent. In Switzerland, we have bauxite, alumina and aluminium sales activities, and aluminium sales activities in Singapore, both are taxed at rates of around 10 percent. In addition, Hungary has a tax rate of 9 percent.

Hydro reports according to the Extractive Industries Transparency Initiative and Norwegian legal requirements in countries where we have exploration and extractive activities (currently only Brazil), see Hydro's Country by country report on page A6. We also report on financial assistance from public organization related to R&D activities, see note S8.

Note S8 - Research & Development (R&D)

Reporting principles

R&D expenses are collected through Hydro's financial reporting, see Hydro's financial statements note 20.

R&D funding is gathered from Hydro's corporate technology office and our main R&D centers, located in Årdal (smelter technology) and Sunndal (alloys and casting) in Norway, Bonn in Germany (Rolled Products) and Brazil (Bauxite & Alumina). Funding received are actual income received from public research funds, e.g. The Research Council of Norway (Forskningsrådet) and Enova, through the year. See page 104 (Cooperation with other institutions) for more information.

Research & Development

NOK million	2017	2016	2015	2014	2013
Research & Development expenses ¹⁾	500	370	330	277	216
Funding received ^{2) 3)}	62	46	51	66	55

1) Extruded Solutions are included from 2 October 2017

2) In addition comes funding to the Karmøy Technology Pilot of NOK 639 million in 2017, NOK 554 million in 2016 and NOK 52 million in 2015. Hydro participates in collaborative projects carried out by other research organizations which receive public funding directly. Such funding is not included in the figures above. GRI-reference GRI Standard 201-4

3) Excluding Extruded Solutions

We have been granted funding amounting to approximately NOK 290 million - to be received in the years to come - provided that certain research projects are carried out. Some funds might already have been received. In addition comes the support from Enova to the Karmøy Technology Pilot, granted in 2014, amounting to a total of about NOK 1.6 billion across several years, see page 104.

Note S9 - Community investments, charitable donations and sponsorships

Reporting principles

All sites report annually on all community investments, charitable donations, sponsorship and other related initiatives. The reporting includes monetary amounts and time spent and benefits to the company as well as to the communities. Outcomes for Hydro and the society are also included in the reporting requirements.

Community investments - excluding Extruded Solutions

NOK million	2017	2016	2015	2014	2013
Community investments	23	19	13	11	16
Total community investments, charitable donations and sponsorships	36	28	30	24	27

Extruded Solutions has a magnitude of community initiatives at its sites. The nature of such projects varies with local customs and business needs. We do currently not have consolidated information about these.

Note S10 - Compliance

Reporting principles

Compliance data have mainly been collected through Hydro's AlertLine and Sapa's AlertLine, quarterly compliance reporting by business areas and a self-assessment filled in by each business area at year-end. Some information has been collected through other sources including Hydro's Legal department and Procurement Network.

S10.1 Reported and confirmed cases of non-compliance

Non-compliance cases are reported through Hydro's AlertLine and Sapa's AlertLine for Extruded Solutions during all of 2017. The Sapa AlertLine is comparable to Hydro's AlertLine, still we have chosen not to consolidate the figures. According to Hydro's reporting principles (see page V2-V3), we do not include such historical data for Sapa.

Cases reported through AlertLine

	2017 ³⁾	2016	2015	2014 ²⁾	2013 ²⁾
Number of cases reported through AlertLine (or similar)					
Hydro, excluding Extruded Solutions	123	173	83	60	60
Extruded Solutions	179				
Dismissals due to breaches of Hydro policy ¹⁾					
Hydro, excluding Extruded Solutions	4	5	23		
Extruded Solutions	2				
Alleged cases of discrimination and/or harassment					
Hydro, excluding Extruded Solutions	40	45	3		
Extruded Solutions	44				
Confirmed cases of discrimination and/or harassment					
Hydro, excluding Extruded Solutions	16	9	1		
Extruded Solutions	11				
Alleged cases of fraud, corruption and/or conflict of interest					
Hydro, excluding Extruded Solutions	32	21	19		
Extruded Solutions	10				
Confirmed cases of fraud, corruption and/or conflict of interest					
Hydro, excluding Extruded Solutions	11	1	5		
Extruded Solutions	3				

1) Total number of dismissals as a result of investigations of cases reported through AlertLine

2) Detailed figures not available for 2014 and 2013

3) Figures for Extruded Solutions include all of 2017, not only the months after acquisition

GRI-reference: GRI Standards GRI 406-1 and 205-3

S10.2 Legal claims

There is still a legal dispute between five of the 120 relocated families and the alumina refinery project CAP in Barcarena in Brazil. These families claim to have the right to remain on the land that is occupied by CAP. After a preliminary analysis, the Trial Court denied their requests, which was confirmed by the Court of Appeals, through an interlocutory appeal. The case is still waiting for the final first instance decision, but there were no major developments during 2017.

Following an overflow of storm water from the bauxite residue deposits at Alunorte in 2009, there are still legal issues pending. In 2012, more than 5,300 claims related to the overflow were filed in the local court. By the end of 2017, a total of 3,708 cases have been decided by the first level civil court in Barcarena, Pará, all in Alunorte's favor. 3,087 of these decisions have been appealed to the second level civil court, located in Belem, Pará, which rendered decisions in 1,805 appeal cases, all in favor of Alunorte. The Court upheld the first instance decisions on the basis that there is no evidence that the plaintiffs suffer or have suffered from the alleged damages related to the spillage of bauxite residue contaminated water.

A civil class action was filed by the Municipality of Ulianópolis against Albras and Alunorte and several other companies in September 2011 to seek remediation of environment damage and the condemnation of the companies in collective moral damages, considering their contribution to environmental damages related to previous disposal of waste through Companhia Brasileira de Bauxita (CBB). Albras and Alunorte are parties in the class action, as both delivered waste to CBB prior to 2003.

The class action was filed after an attempt from the Municipality of Ulianópolis together with the State Environmental Agency - SEMAS, to negotiate a settlement with all the companies involved. Albras and Alunorte did not agree to the terms of the proposed settlement as they had already removed their waste from the site.

The Federal and State Public Prosecutors, in a joint initiative, filed a Public Class Action against Albras, Alunorte, Imerys, Votorantim, Oxbow, Yara (companies located in the industrial district of Barcarena) and the Municipality of Barcarena, the State of Pará and the Federal Union (Brazilian Government). The purpose of the lawsuit is to protect the rights of the local people of Barcarena that allegedly consume contaminated water due to the industrial activities carried on the municipality. The prosecutors argue that the framework for inspection and control by the public authorities over the industrial activities in Barcarena is not sufficient. They also claim that the industrial district has a long history of environmental accidents, amounting to at least 27 incidents since the year 2000. Albras and Alunorte have waste and disposal management systems in accordance with applicable legislation and licenses and seek to apply best industry practices.

In 2017, Cainquiama, an association of Cablocos, indigenous people to the Amazon, filed a lawsuit against Norsk Hydro Brasil, Alunorte, Albras (all three subsidiaries of Norsk Hydro ASA), the State of Pará, Bureau Veritas Brasil and Inmetro. They claim part of the bauxite residue deposits for Alunorte (DRS1 and DRS2) was established on an area designated as an ecological reserve, and that they have suffered social and environmental damages. The area was never formally created as an ecological reserve, and thus does not exist. Further, the contractual limitation period was reached, and Hydro has the necessary environmental licenses. In addition, the area is now classified as an industrial zone.

S10.3 Relocation of people

Relocation of people may at times be necessary in connection with our operations. No voluntary or involuntary relocation of people with legal or prescriptive rights to their dwellings, took place in Hydro's operations in 2017.

In 2017, Hydro's industrial and buffer zone areas in Barcarena, Pará, Brazil, were the alumina refinery, Hydro Alunorte, and the JV smelter, Albras are present, were occupied by illegal settlers. Following an injunction order granted by the Judge of Barcarena District, around 300 illegal dwellings were removed by a government mobilized and specially trained police group.

Hydro supported the state-led resettlement process by helping to transport the belongings of evicted tenants to a location of their choice. A local NGO, Instituto Peabiru, acted as a third-party observer during the operation. The NGO was hired on Hydro's initiative.

S10.4 Compliance training

In 2017, a total of 3,331 employees in Hydro, excluding Extruded Solutions, participated in training to raise awareness of anti-corruption. This included 1,976 participants, who completed an e-learning course on our Code of Conduct or "Preventing Bribery and Corruption", and a total of 1,355 employees who participated in classroom training.

Furthermore, a total of 293 employees participated in training on competition law compliance. This included 112 employees who completed Hydro's e-learning course "Preventing Anti-Competitive Practice" as well as 181 employees who participated in classroom training. In addition, 103 employees participated in classroom training in CSR and human rights.

In Extruded Solutions, 4,832 employees completed training to raise awareness of anti-corruption, conflict of interest, competition and sanctions, in addition to training in the Code of Conduct. Of the total, 352 participated in classroom training.

S10.5 Screening of business partners and supplier audits

As part of the integrity risk management process, approximately 6,200 of Hydro's, excluding Extruded Solutions, potential or existing counter-parties were screened for human rights violations, corruption, financing terrorists, money-laundering, politically exposed persons and violations relating to sanctions and export using the RDC Supply Chain Protection tool. This mostly relates to suppliers, but also some customers, agents and other business partners were included. In addition to integrity risk procedures embedded in the procurement process, new business partners related to most Norwegian operations and also operations in Brazil, are screened before registered in our ERP system. Furthermore, all suppliers, customers and other business partners registered in our main accounting systems are screened on a weekly basis against recognized international sanction lists, in particular related to anti-terror. In total 109 supplier audits were conducted in 2017 in Hydro, excluding Extruded

Solutions, of which 98 included HSE and CSR related topics. Key CSR and HSE findings from the audits were related to lack of management systems, environmental awareness, compliance controls and emergency preparedness. By the end 2017, around half of the corrective actions proposed by Hydro were responded to.

During 2017, Hydro continued to develop the cooperation with FIEPA, the Federation of Industries of the Pará state in Brazil, and their supplier development network, REDES. In total, we have organized training for 23 local Hydro suppliers and strengthened their competence on HSE, management systems, quality and labor rights. About 2,100 employees have been reached so far. Learn more about compliance in the supply chain and local procurement in note S10.5 and S11 to the social statements.

Sapa has worked to promote transparency and sustainability in the supply chain by implementing their supplier declaration, and conducting on-site audits of suppliers. They have focused on the largest suppliers in high-risk regions. About 60 percent of their total spend is made up of a relatively small share of their 30,000 suppliers.

S10.6 Cyber security training

Empowering and enabling line managers to include cyber security on their teams' agendas has been the priority for 2017. 545 line managers participated in training online and on-site. In addition, 235 were invited to attend a recorded webinar. All invited line managers were given an information package they can use as part of their team's work within cyber security.

In Extruded Solutions, 12,931 employees were invited to attend cyber security training, and 95 percent, i.e. 12,284 attended the course.

Note S11 - Spending on local suppliers

Reporting principles

Data on local purchasing is gathered by the Hydro Procurement Network for the business areas Bauxite & Alumina, Primary Metal, Energy and Rolled Products, in addition to Hydro's project organization, and covers consolidated activities.

Comparable data from Extruded Solutions is not available for 2017. Selection of local partners and suppliers/contractors shall be based on competitive bidding to the extent feasible, and in compliance with competition laws and regulations as well as Hydro's requirements. A local supplier is here defined as a supplier situated in the same country as the operational site.

Germany, Norway and Brazil are considered Hydro's most significant locations of operation based on economic importance, excluding Extruded Solutions. Hydro's external reporting on supplier management is still under development.

Spending on local suppliers vary from site to site depending on which goods and services are available. Local spending in our Brazilian operations was estimated to be 66 percent in 2017. Roughly 50 percent of total spend within Rolled Products (mainly operations in Germany and Norway), was spent within Germany and Norway. Most of the raw materials used at the aluminium plants in Norway are imported, while electricity and services are sourced locally. In the Norwegian smelters local procurement mainly relates to maintenance services etc. and constitutes a relatively low share, about 35 percent. Hydro's Projects' procurement organization carries out major projects mainly in Brazil and Norway (Karmøy Technology Pilot and refurbishment of Norwegian power plants). Local spend in projects carried out in Brazil and the portion of local spending related to hydro power projects in Norway are very high. Across the different projects, local spend by Hydro's project organization is estimated to account for about 85 percent of total spend.

Note S12 - Public affairs and lobbying

Reporting principles

Data on public affairs and lobbying is gathered from Hydro's Communication & Public Affairs department in Norway, EU, Germany and Brazil and covers consolidated activities. Comparable figures from Extruded Solutions are not available for 2017.

In total nine full-time equivalents (FTE) are dedicated to public affairs and lobbying. This includes three FTEs each in Brazil and in the EU (Brussels office), which is an increase by one FTE in Brazil and a half FTE in the EU. In Norway two FTEs are dedicated to public affairs and lobbying, and one FTE in Germany, the same as in 2016. In 2017 we spent in total NOK 12

million excluding salaries and office costs on public affairs and lobbying, mostly related to memberships in different industry associations. Within the EU, lobbying activities are publicly reported through the EU Transparency Register. To get a full overview of all Hydro's memberships in different industry associations see Hydro.com.

According to our global directives, Hydro may not make financial contributions to political parties. Sapa had a similar policy. We have no indications that such contributions took place in 2017.

Note S13 - Certifications

Reporting principles

According to Hydro's policy, all operational sites shall comply with, but not necessarily be certified according to, ISO 9001 and ISO 14001 and - within 2020 - with OHSAS 18001. Certification according to these standards is a decentralized responsibility based on identified business needs.

Hydro's power plants in Norway have chosen not to be certified. However, they are fulfilling the requirements given in the mentioned standards. In addition, the power plants need to comply with the requirements given by the Norwegian Water Resource and Energy Directorate (NVE), i.e. concessions for operations as well as environmental, third person safety, security and emergency preparedness regulations. The table below shows the distribution of certification of the other operational sites in Hydro.

In addition to the mentioned ISO and OSHAS standards below, a number of sites are also certified according to different sector specific standards.

Share of relevant operational sites certified	ISO 9001	ISO 14001	OHSAS 18001	ISO 50001	ISO/TS 16949
Hydro, excluding Extruded Solutions	87%	70%	50%	50%	23%
Extruded Solutions	88%	99%	68%	1)	1)

1) While a number of Extruded Solutions sites are also certified according to ISO 5001 and ISO/TS 16949 / IATF, we do still not have the full overview

Note S14 - Social data for 50/50-owned companies

Reporting principles

Hydro has an ownership share of 50 percent in Alunorf and Qatalum. As only operations owned more than 50 percent are included in most of the information in Hydro's viability performance statements, we have chosen to disclose certain social information about these partly-owned companies and their total performance. The reporting principles of each indicator might differ from the ones used by Hydro and in-between the companies. For information about environmental data, see Note E8 to the environmental statements.

Social data for 50/50-owned companies

	Main product	Number of employees	Share of women	TRI, employees	TRI, contractors	LTI, employees	LTI, contractors	Fatal accidents
Alunorf	Rolled products	2 284	4.5%	3.2	NA	0.6	NA	0
Qatalum ¹⁾	Primary aluminium	1 228	3.4%	1.6	1.4	0.8	0.7	0

1) Figures for Qatalum are taken from Qatalum's Sustainability Report 2016 and relate to 2016

GRI Standards

Hydro uses the GRI Standards for voluntary reporting of sustainable development. The guidelines comprise economic, environmental and social dimensions relating to an enterprise's activities, products and services. GRI collaborates with the United Nations Environment Programme and UN Global Compact. Hydro has reported according to GRI since 2003.

We believe that our reporting practice is consistent with GRI's reporting principles in all material respects. We report in adherence to "Core" as defined by the GRI Standard 101: Foundation 2016, and include the GRI G4 Mining & Metals sector supplement and certain relevant aspects of the G4 Electric Utilities sector supplement in our reporting.

The report is externally assured by KPMG. The external assurance, as outlined in the Independent Auditor's Assurance report, concludes that the report is presented, in all material respects in accordance with the GRI Standards, see page V41-V42.

The GRI index, including the full definition of each indicator and references to specific sections in this report as well as additional information, can be found on www.hydro.com/gri

UN Global Compact Communication on progress

We support the principles of the UN Global Compact. Human rights, international labor standards, working against corruption and environmental considerations are fundamental to our approach to corporate responsibility.

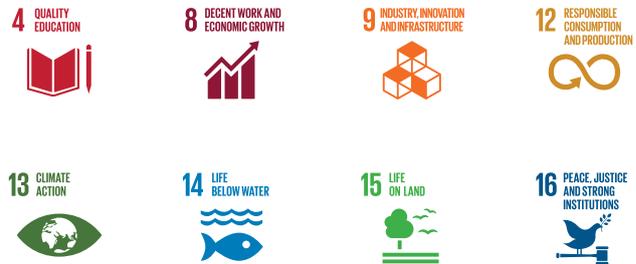
Hydro has played an active role in the Global Compact since its formation. Our commitment is expressed by the President & CEO in his letter to shareholders on page 8 of this report. Our Communication on progress (COP) in relation to the Compact's 10 principles is at the Advanced level and thus also reflects the Global Compact's 21 advanced criteria. The consistency of the information in Hydro's Viability Performance reporting 2017 with the information in the Hydro Communication on Progress 2017 has been reconciled by our auditors, see page V41-V42. A complete report can be found at www.hydro.com/globalcompact

UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) embrace a universal approach to the sustainable development agenda. They explicitly call on business to use creativity and innovation to address development challenges and recognize the need for governments to encourage sustainability reporting. Hydro has an impact on all of the 17 development goals, but some more than others. Of the 17, Hydro has chosen eight goals that are the most important to us, that are highlighted throughout the report, see page 5 for more information.

Hydro uses the SDG Compass, a tool built in a partnership between GRI, UN Global Compact and the World Business Council on Sustainable Development, to make a high-level review on how we relate to the UN Sustainability Development Goals. This review is included in the GRI index 2017 and is also included in external auditor's consistency check of Hydro's GRI index 2017.

A more complete overview of Hydro's positive and negative impacts on each of the 17 SDG, can be found at www.hydro.com



UN Guiding Principles on Business and Human Rights

The United Nations (UN) Guiding Principles on Business and Human Rights (hereafter Guiding Principles) were endorsed by the UN Human Rights Council in June 2011. They have provided a clear, global understanding of governmental duties and corporate responsibilities for human rights. The Guiding Principles articulate that wherever and however a company operates, it must refrain from violating human rights. Companies are expected to be fully aware of their human rights impacts, take concrete steps to address them and implement measures to mitigate negative impacts in the future.

Hydro uses the GRI document "Linking G4 and the UN Guiding Principles" document as basis for how we adhere to the guiding principles, and report on this in the GRI index 2017. This is also included in external auditor's consistency check of Hydro's GRI index 2017. The most salient human rights issues are defined through our materiality analysis on page 81 in this report and include:

- Diversity and equal opportunity
- Freedom of association & collective bargaining
- Human rights assessment
- Indigenous rights
- Occupational health and safety
- Supply chain management (including child and forced labor)

Hydro has nothing to report for 2017 on the guiding principle B4 "Additional severe impacts".

ICMM

Hydro is a member of the International Council on Mining and Metals and reports according to the ICMM requirements. That includes Hydro's reporting in accordance with the GRI Standards, see the section about GRI above. The Viability Performance 2017 reporting is prepared in line with the requirements found in the ICMM 10 principles and position statements. The complete Viability Performance 2017 reporting is – according to the ICMM requirements – assured by our external auditor, please see page V41-V42.

ASI

Hydro is an active member of the Aluminium Stewardship Initiative (ASI). ASI's mission is to recognize and collaboratively foster the responsible production, sourcing and stewardship of aluminium. We have been involved at all stages in the multi-stakeholder development of ASI standards to date. We have participated in developing ASI's certification program. The third party certification platform was launched in December 2017. Hydro will initiate the process of certifying the first site according to ASI in 2018.

Hydro reports in the GRI index 2017 on how we relate to ASI's 11 principles and underlying criteria. This is also included in external auditor's consistency check of Hydro's GRI index 2017. For the full GRI index, see www.hydro.com/gri

Task Force on Climate-related Financial Disclosures (TCFD)

Hydro is a signatory to the TCFD recommendations. TCFD was formed by the Financial Stability Board in 2015. The recommendations were made public in June 2017.

The process of updating Hydro's current climate strategy that runs through 2020, has started. Scenario analyzes will be an important platform for the new climate strategy. These include

- *New policies*: similar to a 2°C scenario in line with the Paris agreement
- *Current policies*: similar to a 4°C scenario and in line with already adopted measures
- *Physical risks*: stress testing of physical risks under a 6°C scenario

The table below shows an overview of Hydro's initial approach to the recommendations. All page references relate to Hydro's Annual Report 2017.

TCFD recommendations

Recommendation	Disclosure	Reference
Governance: <i>Disclose the organization's governance around climate-related risks and opportunities</i>		
a) Describe the board's oversight of climate-related risks and opportunities	Board developments Risk review Key developments and strategic direction / Creating value by becoming Better, Bigger and Greener	33 125 14-18
b) Describe the management's role in assessing and managing climate-related risks and opportunities	Global directives and Code of Conduct / Business planning and risk management Energy and climate change	142-144 81-84
Strategy: <i>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material</i>		
a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	Risk review Energy and climate change	22-23, 127 81-84
b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	Risk review Energy and climate change Business description	22-23, 127 81-84 38, 46, 49, 50
c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Scenario analyzes is part of the ongoing climate risk review, planned to be finalized in 2018	82
Risk management: <i>Disclose how the organization identifies, assesses, and manages climate-related risks</i>		
a) Describe the organization's processes for identifying and assessing climate-related risks	Energy and climate change	81-84
b) Describe the organization's processes for managing climate-related risks	Environment Energy and climate change	28-31 81-84
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organizations' overall risk management	Business planning and risk management	143
Metric and targets: <i>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material</i>		
a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	Board of Directors' report: Environment Hydro's materiality analysis 2017 Environmental statements Note E1 to the environmental statements: Greenhouse gas emissions Note E3 to the environmental statements: Energy Note E4.2 to the environmental statements: Water Note E4.3 to the environmental statements: Recycling Note E6.2 to the environmental statements: Land use and rehabilitation	28-31 81 V4 V5-V10 V12-V13 V13-V15 V15 V17-V18
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Environmental statements Note E1 to the environmental statements	V4 V5-V10
c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets	Board of Directors' report Energy and climate change Resource management	13 82-83 85

Independent auditor's assurance report

We have been engaged by the Corporate Management Board of Norsk Hydro ASA ('Hydro') to provide limited assurance in respect of the Viability performance and Viability performance statements section in the Annual Report 2017 (hereafter Viability performance report 2017) of Hydro. The scope excludes future events or the achievability of the objectives, targets and expectations of Hydro and information contained in webpages referred to in the Viability performance report 2017 unless specified in this report.

Our conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention, except for items described under Emphasis of matter, to indicate that the Viability performance report 2017 is not presented, in all material respects, in accordance with the GRI Sustainability Reporting Standards and the applied reporting criteria as disclosed in the About the reporting section on page V2-V3.

Emphasis of matter

Sapa was acquired by Hydro in the fourth quarter of 2017 and is now incorporated as the business area Extruded Solutions. As described in the About the reporting section on page V2-V3, the acquisition has impacted the content and quality of certain information in the Viability performance 2017 report. Sapa did not report according to GRI Sustainability Reporting Standards and the reported historical information has not been subject to external assurance. We have conducted interviews with relevant staff both from Hydro and Extruded Solutions, reviewed the data reported and the internal controls undertaken by Hydro over the Extruded Solutions' data reported. There is a risk that data reported by Extruded Solutions may be inaccurate or inconsistent with Hydro's reporting principles. We draw attention to the information provided in the About the reporting section on page V2-V3, the environmental and social statements and subsequent notes.

The Corporate Management Board's responsibility

The Corporate Management Board is responsible for the preparation and presentation of the Viability performance report 2017 in accordance with the GRI Sustainability Reporting Standards and the reporting criteria as described in the About the reporting section on page V2-V3 in Hydro's Annual Report. It is important to view the information in the Viability performance report 2017 in the context of these criteria.

These responsibilities include establishing such internal controls as management determines are necessary to enable the preparation of the information in the Viability performance report 2017 that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to provide a limited assurance conclusion on Hydro's preparation and presentation of the Viability performance report 2017.

We conducted our engagement in accordance with the International Standard for Assurance Engagements (ISAE 3000): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board.

ISAE 3000 requires that we plan and perform the engagement to obtain limited assurance about whether the information in the 'Viability performance report 2017' is free from material misstatement.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Limited assurance of the Viability performance report 2017

The procedures selected depend on our understanding of the Viability performance report and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise. Our procedures for limited assurance on the Viability performance report 2017 included, amongst others:

- A risk analysis, including a media search, to identify relevant sustainability issues for Hydro in the reporting period;
- Interviews with senior management and relevant staff at corporate and selected sites concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- Enquiries to management to gain an understanding of Hydro's processes for determining material issues for Hydro's key stakeholder groups;
- Interviews with relevant staff at corporate level responsible for providing the information, carrying out internal control procedures and consolidating the data in the Viability performance report 2017;
- Visits to two production sites to review the source data and the design and implementation of controls and validation procedures at local level;
- Reviewing relevant internal and external documentation, on a limited test basis, in order to determine the reliability of the Viability performance report 2017;
- Reading the Viability performance report 2017 to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained through our assurance engagement.
- Assessment of Hydro's reporting in relation to Subject Matters 1 to 4 as set out in ICMM Sustainable Development Framework: Assurance Procedure;
- Assessment of Hydro's self-declared commitment to the Aluminium Stewardship Initiative's 11 principles and underlying criteria;
- Determination of the consistency of the sustainability information in the Hydro Communication on Progress 2017 with the information in the Viability performance report 2017.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for Norsk Hydro ASA for the purpose of assisting the Corporate Management Board in determining whether Hydro's limited assurance sustainability information is prepared and presented in accordance with the GRI Sustainability Reporting Standards and for no other purpose or in any other context.

Oslo, 19 March, 2018
KPMG AS

Julie Berg
State Authorized Public Accountant

Anette Rønnov
Director

Appendices to the Board of Directors' report

ALTERNATIVE PERFORMANCE MEASURES (APMs)	p.A2
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QUICK OVERVIEW

This section contains information that is part of the Board of Directors' formal responsibility and exceeding the information required directly in the Board of Directors' report.

All documents are approved by the Board of Directors and included in their signatures to the Board of Directors' Report.

The Country by Country report is also included in the Board of Directors' responsibility statement on page F86 as required by the Norwegian Accounting Act §3-3d and the Norwegian Securities Act §5-5a.

Activities in **40**
COUNTRIES

34,625
EMPLOYEES

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
- *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 divided by a weighted average of outstanding shares (ref.: note 37 to the consolidated 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
- *Adjusted net cash (debt) to equity ratio*: Adjusted net cash debt/total equity
- *Funds from operations to adjusted net cash (debt) ratio*: Cash generation from Hydro's wholly and partly owned operating assets before changes in net operating capital, including the contribution from equity accounted investments, and after current tax expense/adjusted net cash (debt)
- *(Underlying) RoaCE*: (Underlying) RoaCE is defined as (underlying) "Earnings after tax" divided by average "Capital employed". (Underlying) "Earnings after tax" is defined as (underlying) "Earnings before financial items and tax" less "Adjusted income tax expense". Since RoaCE represents the return to the capital providers before dividend and interest payments, adjusted income tax expense excludes the tax effects of items reported as "Financial income (expense), net" and in addition, for underlying figures, the tax effect of items excluded. "Capital Employed" is defined as "Shareholders' Equity", including non-controlling interest plus long-term and short-term interest-bearing debt less "Cash and cash equivalents" and "Short-term investments". Capital Employed can be derived by deducting "Cash and cash equivalents", "Short-term investments" and "Short-term and long-term interest free liabilities" (including deferred tax liabilities) from "Total assets". The two different approaches yield the same value.

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

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

above NOK 20 million. All items excluded from underlying results are reflecting a reversal of transactions recognized in the financial statements for the current period, except for the metal effect. Part-owned entities have implemented similar adjustments.

Items excluded from underlying net income¹⁾

NOK million	Year 2017	Year 2016
Unrealized derivative effects on LME related contracts	220	(401)
Unrealized derivative effects on power and raw material contracts	246	(61)
Metal effect, Rolled Products	(419)	(91)
Significant rationalization charges and closure costs	210	192
Impairment charges (PP&E and equity accounted investments)	-	426
(Gains)/losses on divestment	-	(314)
Other effects	212	(223)
Transaction related effects (Sapa)	(1 463)	
Items excluded in equity accounted investments (Sapa)	19	(113)
Items excluded from underlying EBIT	(974)	(586)
Net foreign exchange (gain)/loss	875	(2 266)
Calculated income tax effect	(564)	841
Other adjustments to net income ²⁾	(125)	(700)
Items excluded from underlying net income	(788)	(2 712)
Income (loss) tax rate	17 %	28 %
Underlying income (loss) tax rate	24 %	38 %

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

2) In 2017 underlying net income included a reduction in tax expense and related interest income of in total NOK 125 million in relation to a tax dispute that was ruled in favor of Hydro in September. In 2016 a reduction in tax expense and related interest income of NOK 700 million in total was included following settlement of a tax case in April 2016.

- *Unrealized derivative effects on LME related contracts* include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, where hedge accounting is not applied. Also includes elimination of changes in fair value of certain internal physical aluminium contracts.
- *Unrealized derivative effects on power and raw material contracts* include unrealized gains and losses on embedded derivatives in raw material and power contracts for Hydro's own use and for financial power contracts used for hedging purposes, as well as elimination of changes in fair value of embedded derivatives within certain internal power contracts.
- *Metal effect in Rolled Products* is an effect of timing differences resulting from inventory adjustments due to changing aluminium prices during the production, sales and logistics process, lasting two to three months. As a result, margins are impacted by timing differences resulting from the FIFO inventory valuation method (first in, first out), due to changing aluminium prices during the process. The effect of inventory write-downs is included. Decreasing aluminium prices in Euro results in a negative metal effect on margins, while increasing prices have a positive effect.
- *Significant rationalization charges and closure costs* include costs related to specifically defined major projects, and not considered to reflect periodic performance in the individual plants or operations. Such costs involve termination benefits, dismantling of installations and buildings, clean-up activities that exceed legal liabilities, etc. Costs related to regular and continuous improvement initiatives are included in underlying results.
- *Impairment charges (PP&E and equity accounted investments)* relate to significant write-downs of assets or groups of assets to estimated recoverable amounts in the event of an identified loss in value. Gains from reversal of impairment charges are simultaneously excluded from underlying results.
- *(Gains) losses on divestments* include a net gain or loss on divested businesses and/or individual major assets.
- *Other effects* include recognition of pension plan amendments and related curtailments and settlements, insurance proceeds covering asset damage, legal settlements, etc. Insurance proceeds covering lost income are included in underlying results.
- *Transaction related effects (Sapa)* reflect the net measurement gain relating to previously owned shares in Sapa and an inventory valuation expense related to the Sapa transaction.

- *Items excluded in equity accounted investments* reflects Hydro's share of items excluded from underlying net income in Sapa, until end of third quarter 2017, and Qatalum and are based on Hydro's definitions, including both timing effects and material items not regarded as part of underlying business performance for the period.
- *Net foreign exchange (gain) loss*: Realized and unrealized gains and losses on foreign currency denominated accounts receivable and payable, funding and deposits, embedded currency derivatives in certain power contracts and forward currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and operating capital.
- *Calculated income tax effect*: In order to present underlying net income on a basis comparable with our underlying operating performance, the underlying income taxes are adjusted for the expected taxable effects on items excluded from underlying income before tax using a general tax rate of 30 percent.
- *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 EBIT¹⁾

NOK million	Year 2017	Year 2016
Impairment charges	-	285
Other effects ²⁾	-	(254)
Bauxite & Alumina	-	31
Unrealized derivative effects on LME related contracts	101	(93)
Unrealized derivative effects on power contracts	50	(125)
Significant rationalization charges and closure costs	181	192
Primary Metal	331	(27)
Unrealized derivative effects on LME related contracts	58	(119)
Metal Markets	58	(119)
Unrealized derivative effects on LME related contracts	41	(183)
Metal effect	(419)	(91)
(Gains)/losses on divestments	-	28
Other effects ³⁾	245	
Rolled Products	(132)	(246)
Unrealized derivative effects on LME related contracts	(4)	
Significant rationalization charges and closure costs	29	
Transaction related effects (Sapa) ⁴⁾	(1 463)	
Extruded Solutions	(1 438)	
Energy	-	-
Unrealized derivative effects on power contracts ⁵⁾	197	64
Unrealized derivative effects on LME related contracts ⁵⁾	23	(6)
Impairment charges	-	140
(Gains)/losses on divestments	-	(342)
Other effects ⁶⁾	(33)	32
Unrealized derivative effects (Sapa)	20	(166)
Significant rationalization charges and closure costs (Sapa)	-	55
Net foreign exchange (gain) loss (Sapa)	5	(49)
Calculated income tax effect (Sapa)	(6)	48
Other and eliminations	206	(225)
Items excluded from underlying EBIT	(974)	(586)

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

2) Other effects in Bauxite & Alumina include a compensation relating to the completion of outstanding contractual arrangements with Vale.

3) Other effects in Rolled Products include a compensation relating to a customs case in Germany.

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

5) Unrealized derivative effects on power contracts and LME related contracts result from elimination of changes in the valuation of embedded derivatives within certain internal power contracts and in the valuation of certain internal aluminium contracts.

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

Underlying EBITDA

NOK million	Year 2017	Year 2016
EBITDA	18 344	12 485
Items excluded from underlying EBIT	(974)	(586)
Reversal of impairments	-	(426)
Underlying EBITDA	17 369	11 474

Underlying earnings per share

NOK million	Year 2017	Year 2016
Net income (loss)	9 184	6 586
Items excluded from net income (loss)	(788)	(2 712)
Underlying net income (loss)	8 396	3 875
Underlying net income attributable to non-controlling interests	331	112
Underlying net income attributable to Hydro shareholders	8 066	3 762
Number of shares	2 044	2 042
Underlying earnings per share	3.95	1.84

Adjusted net cash (debt), adjusted net cash (debt) to equity ratio and funds from operations to adjusted net cash (debt) ratio

Hydro's capital management measures are described in note 38 to the consolidated financial statements, including reconciliations and comparable information.

Underlying RoaCE

Hydro uses (underlying) RoaCE to measure the performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views this measure as providing additional understanding of the rate of return on investments over time in each of its capital intensive businesses, and in the operating results of its business segments.

NOK million	Reported		Underlying	
	2017	2016	2017	2016
EBIT	12 189	7 011	11 215	6 425
Adjusted Income tax expense ¹⁾	(2 225)	(1 913)	(2 651)	(2 452)
EBIT after tax	9 964	5 098	8 564	3 973

NOK million	December 31		
	2017	2016	2015
Current assets ²⁾	41 459	23 722	23 491
Property, plant and equipment	73 020	58 734	51 174
Other non-current assets	35 710	35 688	35 210
Current liabilities ³⁾	(25 081)	(13 823)	(13 837)
Non-current liabilities ⁴⁾	(28 737)	(22 651)	(21 847)
Capital Employed	96 370	81 670	74 191

Return on average Capital Employed (RoaCE)	Reported		Underlying	
	2017	2016	2017	2016
Hydro	11.2 %	6.5 %	9.6 %	5.1 %

1) Adjusted income tax expense on EBIT is calculated based on realized reported/ underlying tax expense excluding tax on financial items, on which a 30 percent tax rate is applied as of 2017 (adjusted income tax expense for 2016 is restated).

2) Excluding cash and cash equivalents and short-term investments.

3) Excluding bank loans and other interest-bearing short-term debt.

4) Excluding long-term debt.

Country by country report

Hydro's country by country report has been developed to comply with legal requirements as stated in the Norwegian Accounting Act §3-3d and the Norwegian Security Trading Act §5-5a, valid from 2014, and updated in 2017, and replaces our former reporting on payments to host governments according to the Extractive Industries Transparency Initiative (EITI). Our reporting includes, and goes beyond, the EITI requirements. According to the Norwegian Accounting Act, the country-by-country reporting should be on a project level, and payments should be reported per public authority. Following a thorough evaluation, we have defined "project" as legal entity in the report, and "public authority" as the three levels federal; state(s); and municipality(-ies).

The reporting requirement applies to Hydro as a Norwegian listed company with exploration and extractive activities. Currently, this includes Hydro's consolidated operations in Brazil, through exploration and extractive activities in Paragominas, in the state of Pará. On a voluntary basis, and in line with our EITI reporting since 2005, we also include the alumina refinery Alunorte. Alumina is refined from bauxite and is the commercial product from Hydro's Bauxite & Alumina business area.

Hydro's primary aluminium production facility Albras is also closely linked to the extraction of raw materials in Pará. In order to better illustrate the tax contribution from Hydro's aluminium value chain in Pará, Albras is included on a voluntary basis in the country-by-country report. In addition, Hydro voluntarily report on indirect tax contributions not covered by the requirements in the country by country report.

To comply with the Norwegian country-by-country regulation, Hydro is required to report on certain information at corporate level related to legal entities, where they are registered, number of employees, and interest paid to other legal entities in Hydro within another jurisdiction. From 2017, it is also required to give a short description of each legal entity's activities, revenue, income before tax, tax accrued and paid in the reporting year, and accumulated earnings.

The Country-by-country report is approved by the board of directors and included in their responsibility statement on page F86.

Payments to authorities per project and authority (exploration and extractive activities, alumina refining and aluminium production) in 2017

Extractive related activities (all in Brazil) 1)	Taxes and fees 2)	Royalties	License fees 3)	Infrastructure, contractual 4)	Infrastructure, voluntary 4)	Investments	Revenue 5)	Production volume	Total expenses 5) 6)
	NOK million	NOK million	NOK million	NOK million	NOK million	NOK million	NOK million	1 000 mt	NOK million
Mineracao Paragominas SA, total	152	89	1	1	1	996	3 022	11 435	2 382
Federal	74	11	1						
Pará State	78	21	-						
Paragominas municipality	-	58	-						
Norsk Hydro Brasil Ltda, total	17	-	-	1	4	30	5	-	41
Federal	17	-	-						
Rio de Janeiro State	-	-	-						
São Paulo Municipality	-	-	-						
Alunorte - Alumina do Norte do Brasil SA, total	39	-	-	-	2	608	14 342	6 397	14 604
Federal	30	-	-						
Pará State	9	-	-						
Barcarena Municipality	-	-	-						
Albras - Alumínio Brasileiro SA, total	207	-	-	-	1	420	7 802	398	6 900
Federal	205	-	-						
Pará State	2	-	-						
Barcarena Municipality	-	-	-						
Total 7)	415	89	1	2	8				

1) In 2017, Hydro's extractive activities did not have the following types of payments to host authorities:

- production entitlements
- dividends
- signature, findings and production bonuses
- stocks, shares or other ownership rights

2) Taxes and fees (income, profit and production) except taxes and fees on consumption such as VAT, withholding taxes on behalf of employees, sales tax.

3) License, lease or access fees or other payments for licenses or commissions

4) Payments on improved infrastructure, either contractual based on exploration or operational licenses, or voluntary is based on Hydro's reporting on social investments, please see note S9 to the social statements in Hydro's Annual Report 2017.

5) Including power procurement and sales

6) Costs at Alunorte include purchase of bauxite from Paragominas. Costs at Albras include purchase of alumina from Alunorte.

7) Only figures where a total is presented can be consolidated.

Other tax contributions to authorities in Brazil

The Brazilian tax system is complex and volatile. In addition to the direct taxes reported above on income, profit and production, Brazil has several indirect taxes levied at the federal and state levels, and other taxes levied at the municipal level.

For Hydro, there are three relevant indirect tax mechanisms not covered by the country-by-country requirements, i.e ICMS and PIS/COFINS.

ICMS is a Brazilian state tax on the sale of goods, freight and certain services, similar to VAT. ICMS is intended to be a non-cumulative tax, which means that sales are generating ICMS debits with the seller, and purchases are generating ICMS credits with the buyer. However, as export transactions are exempt from ICMS and not generating ICMS debits, exporters accumulate ICMS credits, which cannot be offset with any other taxes. Since ICMS is an indirect tax, the net ICMS effect is reported as a cost in Hydro's financial accounts, instead of as a tax item.

In the state of Pará, Hydro is subject to a tax regime that aims at preventing the accumulation of ICMS recognized credits, and reduces net payable ICMS. From our operations, we generate ICMS tax revenue to Pará when purchasing diesel and fuel oil, when Albras acquires electricity, and also on sales of products to customers located outside the state.

The ICMS regime Hydro is subject to requires Hydro to comply with certain conditions related to vertical integration of aluminium production in Pará. It also requires Hydro to contribute to the development in the region and enable sustainable growth in Pará.

PIS and COFINS are two social contribution taxes charged on gross income, in most cases at the rate of 9.25 percent. Hydro's group companies in Brazil are charged under a non-cumulative system that resembles VAT. Similar to ICMS, export transactions are not subject to this tax. As a result, Brazilian exporters, like Alunorte and Albras, accumulate credits that can be either reimbursed or offset against debts of other federal taxes.

In addition to the indirect taxes described above, Brazilian municipalities levies a property tax. The property tax, IPTU, is a tax levied on the ownership or possession of urban land and property located in the urban area within the municipality. IPTU is due yearly based on the value of the property, according to rates and conditions foreseen in each municipality's legislation.

The table below includes Hydro entities involved in extractive activities as well as other Hydro entities in the state of Pará.

Other taxes paid to authorities in Brazil*

Extractive related activities	ICMS	PIS	COFINS	IPTU	Total contribution
	NOK million	NOK million	NOK million	NOK million	NOK million
Mineracao Paragominas SA, total	37	-	-	-	37
Federal	-	-	-	-	-
Pará State	37	-	-	-	37
Paragominas municipality	-	-	-	-	-
Norsk Hydro Brasil Ltda, total	1	-	1	-	2
Federal	-	-	1	-	1
Rio de Janeiro State	1	-	-	-	1
São Paulo Municipality	-	-	-	-	-
Alunorte - Alumina do Norte do Brasil SA, total	657	-	-	38	696
Federal	-	-	-	-	-
Pará State	657	-	-	-	657
Barcarena Municipality	-	-	-	38	38
Albras - Alumínio Brasileiro SA, total	379	-	-	36	415
Federal	-	-	-	-	-
Pará State	379	-	-	-	379
Barcarena Municipality	-	-	-	36	36
Total	1 074	-	1	74	1149

*Tax off-sets are not included

Further country by country information for all consolidated legal entities

The Norwegian country by country reporting requirement as stated in the Norwegian Accounting Act and the Country by Country Regulation also require reporting on certain information at corporate level related to legal entities, as included in the table below.

Hydro's subsidiaries have both external revenue derived from sale to Hydro's end customers, and internal revenue derived from sale to other Hydro entities. In the table below both revenue streams are included per legal entity, but in Hydro's consolidated financial statements all internal transactions have been eliminated to arrive at Hydro's revenue. The sum of the different items for Hydro's subsidiaries will therefore not add up to the respective consolidated figures.

In order to present a Grand Total in the country by country report that is comparable to Hydro's consolidated financial statements, we have included all group eliminations as a separate line. These include, but are not limited to, eliminations of internal revenue and cost, internal receivables and payables, distributed profit such as dividends within the group, goodwill and excess values not attributable to individual legal entities, accumulated profits allocated to non-controlling interests and all joint operations and joint ventures.

Assets and liabilities in subsidiaries that have been acquired have been remeasured to fair value in Hydro's financial statements. This value adjustment, often referred to as excess value, represents the difference between the fair value of the company as paid by Hydro, and the carrying value of assets and liabilities as recognized by the subsidiary at the time of purchase. This premium is not reflected in the subsidiaries local statutory reporting. Due to this, figures reported in Hydro's country by country report are not necessarily comparable to the entities' local statutory reporting. Acquired entities are included from the date of acquisition. As a result of rounding adjustments, the figures in one or more of the columns in the table below may not add up to the total of that column.

The information is included in the independent auditors assurance report.

Further country by country information for all consolidated legal entities

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
Argentina	Sapa Aluminium Argentina S. A.	Precision tubing production	100 %	130	-	-	72	5	2	2	51
Total Argentina				130	-	-	72	5	2	2	51
Australia	Hydro Aluminium Australia Pty. Limited	Local holding company	100 %	-	-	-					
	Hydro Aluminium Kurri Kurri Pty. Limited	Real estate	100 %	10	-	-	6	-264	-	-	-2 091
Total Australia				10	-	-	6	-264	-	-	-2 091
Austria	Hydro Building Systems Austria GmbH	Sales company	100 %	33	-	-	33	-3	-3	6	-12
	Hydro Components Nenzing GmbH	Extrusion component production	100 %	108	-	-	23	1	2	-	20

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
	Hydro Extrusion Nenzing GmbH	Extrusion production	100 %	298	-	-	411	19	33	5	278
	Hydro Holding Austria GmbH	Local holding company	100 %	-	-	-	-	-11	-	12	76
Total Austria				439	-	-	467	5	31	22	363
Belgium	Hydro Alease NV	Support services	100 %	-	-	-	1	1	1	1	16
	Hydro Aluminium Belgium BVBA	Support services	100 %	-	-	-	-	-	-	-	-
	Hydro Building Systems Belgium N.V	Building systems production	100 %	215	2	-	118	7	1	1	-211
	Hydro Extrusion Licthervelde NV	Precision tubing production	100 %	180	-	-	370	19	23	-	297
	Hydro Extrusion Raeren S.A	Extrusion production	100 %	185	10	-	171	8	-9	-	189
	Norsk Hydro EU Sprl	Public affairs	100 %	3	-	-	5	-	-	-	-
	Sapa Building Systems International NV	<i>Liquidated in 2017</i>	-	-	-	-	-	-	-	-	-
	Sapa Extrusion EXPA S.A	Dies production	100 %	58	-	-	17	-11	-10	-	125
	Sapa Precision Tubing Lichterfelde NV	Precision tubing production	100 %	179	-	-	118	-1	-9	-	68
	Sapa Precision Tubing Seneffe S.A	<i>Entity is dormant</i>	100 %	-	-	-	-	-	-	-	10
Total Belgium				820	12	-	799	23	-3	1	494
Brazil	ALBRAS - Alumínio Brasileiro SA	Primary aluminium production	51 %	1 187	103	-	7 802	935	299	176	2 959
	ALUNORTE - Alumina do Norte do Brasil S. A. ⁷⁾	Alumina refinery	92.1 %	1 961	92	31	14 342	-437	-237	133	5 322
	Ananke Alumina SA	Local holding company	100 %	-	-	-	88	890	31	18	1 897
	Atlas Alumínio SA	Local holding company	100 %	-	-	-	201	482	53	78	446
	Calypso Alumina SA	Local holding company	100 %	-	-	-	-	-	-	-	-1
	CAP - Companhia de Alumina do Pará SA	Planned alumina refinery	81 %	-	-	-	-	-15	-	1	-429
	Mineração Paragominas SA	Bauxite mining	100 %	1 367	92	-	3 022	755	191	72	996
	Norsk Hydro Brasil Ltda.	Local holding company	100 %	333	40	-	12	34	17	17	-418
	Norsk Hydro Energia Ltda.	Power trading & Energy services	100 %	-	-	-	1 114	42	15	19	19
	Sapa Aluminium Brazil S.A	Precision tubing production	100 %	372	20	-	190	-9	1	-	13
Total Brazil				5 220	347	31	26 770	2 677	371	515	10 804

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
Canada	Hydro Aluminium Canada & Co. Ltd.	Local holding company	100 %	3	-	-	1 996	8	27	60	931
	Hydro Aluminium Canada Inc.	Local holding company	100 %	-	-	-	1	1	-	-	24
	Sapa Canada Inc.	Extrusion production	100 %	540	-	1	611	7	21	23	490
Total Canada				543	-	1	2 608	16	48	84	1 446
China & Hong Kong	Hydro Aluminium Beijing Ltd.	Sales company	100 %	10	-	-	1 036	48	12	12	48
	Sapa (Shanghai) Management Co. Ltd	<i>Entity is dormant</i>	100 %	-	-	-	-	-	-	1	-16
	Sapa Asia Limited	<i>Entity is in liquidation</i>	100 %	-	-	-	-	-	-	-	-4
	Sapa Building Systems (Beijing) Co. Limited	Sales company	100 %	21	-	-	23	2	1	1	-67
	Sapa Extrusion (Jiangyin) Co. Ltd	<i>Entity is dormant</i>	100 %	-	-	-	-	-	-	-	-26
	Sapa Extrusion (Shanghai) Company Ltd	Precision tubing production	100 %	215	-	-	67	-1	-1	-	111
	Sapa Precision Tubing (Suzhou) Co. Ltd.	Precision tubing production	100 %	360	-	-	226	13	7	12	-41
Sapa Precision Tubing Shanghai Ltd.	Precision tubing production	100 %	64	-	-	30	-1	-	-	15	
Total China & Hong Kong				670	-	-	1 383	61	19	25	20
Czech Republic	Sapa Building System sro CZ	Sales company	100 %	-	-	-	2	-	-	-	1
Total Czech Republic				-	-	-	2	-	-	-	1
Denmark	Datoselskabet af 23. august 2016 A/S under frivillig likvidation	<i>Entity is in liquidation</i>	100 %	-	-	-	-	-	2	-	-
	Hydro Aluminium Rolled Products Denmark A/S	Sales company	100 %	2	-	-	4	1	-	-	5
	Hydro Extrusion Denmark A/S	Extrusion production	100 %	278	-	-	323	8	6	9	124
	Hydro Holding Denmark A/S	Local holding company	100 %	-	-	-	0	-3	-3	-1	1 427
	Hydro Precision Tubing Tønder A/S	Precision tubing production	100 %	449	-	-	355	30	24	19	474
Total Denmark				729	-	-	682	36	29	28	2 030
Estonia	Hydro Extrusion Estonia AS	Extrusion production	100 %	13	-	-	15	1	-	-	10
Total Estonia				13	-	-	15	1	-	-	10
Finland	Hydro Extrusion Finland Oy	Sales company	100 %	-	-	-	43	-1	-	1	13
Total Finland				-	-	-	43	-1	-	1	13
France	Extrusion Services S.a.r.l	Local holding company	100 %	40	1	-	595	19	4	1	150

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
	Hydro Albi SNC	Extrusion production	100 %	22	-	-	-	-	-	-	-
	Hydro Aluminium France S.A. S.	Local holding company	100 %	10	-	-	14	3	1	2	5
	Hydro Aluminium Sales and Trading s.n.c.	Sales company	100 %	3	-	-	7	1	-	-	1
	Hydro Buildex	Extrusion production	100 %	99	7	-	134	14	13	4	87
	Hydro Building Systems France Sarl	Building systems production	100 %	676	27	-	592	17	36	-	285
	Hydro Building Systems Holding France SAS	Local holding company	100 %	-	-	-	-	119	6	-	873
	Hydro Extrusion Albi SAS	Administrative services	100 %	159	5	-	189	-8	-5	-1	125
	Hydro Extrusion Lucé/Châteauroux SAS	Extrusion production	100 %	336	4	-	233	-6	1	7	-204
	Hydro Extrusion Puget SAS	Extrusion production	100 %	285	-	-	186	1	1	1	-9
	Hydro France SAS	Local holding company	100 %	-	-	-	-	-	-	-	395
	Hydro Holding France SAS	Local holding company	100 %	-	-	-	-	197	-32	-67	167
	Hydro Laquage Albi SAS	Sales company	100 %	72	-	-	26	2	1	1	22
	Hydro Tool Center SAS	Tool and spare parts services	100 %	5	-	-	10	-	-	-	2
	Sapa Building Systems Puget SAS	Building systems production	100 %	122	-	-	149	-14	3	2	76
	Sapa Shared Services France I.T.C. s.n.c.	IT shared services	100 %	-	-	-	4	-	-	-	1
Total France				1 829	44	-	2 140	346	30	-50	1 975
Germany	Hydro Aluminium Deutschland GmbH	Local holding company	100 %	68	4	-	39	401	-129	333	4 868
	Hydro Aluminium Dormagen GmbH	Finishing	100 %	18	4	-	50	14	-	-	5
	Hydro Aluminium Gießerei Rackwitz GmbH	Remelter	100 %	59	5	-	907	48	1	-	29
	Hydro Aluminium High Purity GmbH	High-purity aluminium production	100 %	62	4	-	247	-18	4	-	69
	Hydro Aluminium Recycling Deutschland GmbH	Remelter	100 %	27	4	-	53	5	-	-5	80
	Hydro Aluminium Rolled Products GmbH	Local holding company	100 %	3 371	420	-	21 466	444	236	14	3 655
	Hydro Building Systems GmbH	Building systems production	100 %	86	7	-	287	-3	-2	-	122
	Hydro Energy GmbH	Energy sourcing	100 %	-	-	-	5	4	-	-	107

A14 APPENDICES TO THE BOARD OF DIRECTORS' REPORT
Further country by country information for all consolidated legal entities

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
Total Japan				7	-	-	229	18	7	5	51
Latvia	Hydro Extrusion Latvia SIA	Sales company	100 %	486	-	-	2	-	-	-	-6
Total Latvia				486	-	-	2	-	-	-	-6
Lithuania	Hydro Building Systems Lithuania	Sales company	100 %	-	-	-	21	-	1	1	8
	Hydro Extrusion Lithuania UAB	Extrusion production	100 %	-	-	-	49	2	-	-	24
Total Lithuania				-	-	-	70	2	1	1	32
Luxembourg	Hydro Aluminium Clervaux S. A.	Remelter	100 %	53	3	-	1 388	42	10	13	239
Total Luxembourg				53	3	-	1 388	42	10	13	239
Mexico	Monterrey Extrusion Services S DE R.L. DE	Precision tubing production	100 %	-	-	-	9	-	-	-	-2
	Sapa Precision Tubing Monterrey S. de R.L. de C.V.	Precision tubing production	100 %	131	-	-	20	-1	-1	-	109
	Sapa Precision Tubing Reynosa S. de R.L. de C.V.	Precision tubing production	100 %	206	-	-	20	-1	-	-	10
Total Mexico				337	-	-	49	-1	-	-	117
Mozambique	Sapa Building Systems Moçambique Lda	<i>Entity is dormant</i>	100 %	-	-	-	1	-	-	-	-
Total Mozambique				-	-	-	1	-	-	-	-
Netherlands	Fintuna Holding (Nederland) B. V.	Real estate	100 %	-	-	-	-	6	-	-	-20
	Hydro Albras B.V.	Local holding company	100 %	-	-	-	-	234	-	-	-10
	Hydro Aluminium Brasil Investment B.V.	Local holding company	100 %	-	-	-	-	546	-	-	894
	Hydro Aluminium Investment B.V.	Local holding company	100 %	-	-	-	-	-	-	-	-
	Hydro Aluminium Netherlands B.V.	Local holding company	100 %	-	-	-	-	522	-	-	256
	Hydro Aluminium Pará B.V.	Local holding company	100 %	-	-	-	-	-115	-	-	-115
	Hydro Aluminium Qatalum Holding B.V.	Local holding company	100 %	-	-	-	-	746	-	-	896
	Hydro Aluminium Rolled Products Benelux B.V.	Sales company	100 %	3	-	-	4	1	-	-	2
	Hydro Alunorte B.V.	Local holding company	100 %	-	-	-	-	813	-	-	-44
	Hydro Building Systems Netherlands B.V.	Building systems production	100 %	-	-	-	9	-	-	-	-7
	Hydro CAP B.V.	Local holding company	100 %	-	-	-	-	-369	-	-	-370

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
	Hydro Extrusion Drunen B.V.	Extrusion production	100 %	477	32	-	361	4	-3	-	747
	Hydro Extrusion Hoogezand B.V.	Extrusion production	100 %	160	-	-	130	2	-	-	150
	Hydro Paragominas B.V.	Local holding company	100 %	-	-	-	-	-	-	-	7
	Norsk Hydro Holland B.V.	Local holding company	100 %	4	-	-	15	2 248	-	-	5 263
	Sapa Holdings (Nederland) B.V.	<i>Entity is dormant</i>	100 %	-	-	-	-	-	-	-	-
	Sapa Nederland B.V.	Local holding company	100 %	-	-	-	-	-51	-	-	60
Total Netherlands				644	32	-	518	4 586	-3	-	7 706
Norway	Herøya Nett AS	<i>Entity sold during 2017</i>	-	-	-	-	8	-4	-1	-	-
	Hycast AS	Remelter	100 %	52	1	-	298	14	3	-	111
	Hydro Aluminium AS	Primary aluminium production	100 %	2 336	414	-	47 069	9 388	1 300	452	19 079
	Hydro Aluminium Rolled Products AS	Rolling mill	100 %	649	38	-	4 277	52	12	-	695
	Hydro Energi AS	Power production	100 %	179	15	-	7 088	71	358	336	-505
	Hydro Extruded Solutions AS	Local holding company	100 %	145	3	-	-	428	78	1	2 293
	Hydro Extrusion Norway AS	Extrusion production	100 %	109	6	-	91	1	-7	-	51
	Hydro Invest Porsgrunn AS	Local holding company	100 %	-	-	-	-	2	-	-	-
	Hydro Kapitalforvaltning AS	Local holding company	100 %	4	-	-	10	-	-	-	-
	Hydro Vigelands Brug AS	High-purity aluminium production	100 %	32	4	-	80	10	2	-	66
	Hydro Vigelandsfoss AS	Power production	100 %	-	-	-	41	6	8	12	180
	Industriforsikring AS	Insurance	100 %	9	-	-	165	154	27	-	577
	Norsk Hydro ASA	Parent company	-	266	6	-	316	-491	-307	114	32 903
	Røldal-Suldal Kraft AS	Power production	91.3 %	-	-	-	486	343	208	123	124
	Svælgfos AS	Power trading	100 %	-	-	-	-	-	-	-	1
	Sør-Norge Aluminium AS	Primary aluminium production	100 %	250	134	-	2 299	96	34	-	668
	Vækerø Gård Barnehage ANS	Company kindergarden	100 %	-	-	-	-	-	-	-	-
Total Norway				4 031	621	-	62 230	10 070	1 714	1 039	56 240
Poland	Hydro Aluminium Rolled Products Polska Sp. zo.o.	Sales company	100 %	6	-	-	4	-	-	-	5

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Further country by country information for all consolidated legal entities

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
	Sapa Aluminium Sp. zo.o	Extrusion production	100 %	1 073	10	-	479	22	17	2	522
	Sapa Building Systems Sp. zo.o.	Sales company	100 %	51	-	-	44	-1	-	-	-6
Total Poland				1 130	10	-	526	22	17	2	520
Portugal	Hydro Aluminium Extrusion Portugal HAEP, S.A.	Extrusion production	100 %	104	21	-	87	-1	-	-	125
	Hydro Building Systems Lda.	Sales company	100 %	14	-	-	23	2	2	-	34
	Naco Portugal SGPS Lda.	<i>Entity is dormant</i>	100 %	-	-	-	-	-	-	-	-94
	Sapa Portugal SA	Sales company	100 %	43	-	-	41	-1	5	-	-6
Total Portugal				161	21	-	150	-1	8	-	59
Romania	Hydro Extrusion S.R.L	Extrusion production	100 %	249	-	-	109	-6	-	-	-145
Total Romania				249	-	-	109	-6	-	-	-145
Russian Federation	OOO Sapa Building Systems	<i>Entity is in liquidation</i>	100 %	-	-	-	-	-	-	-	-
Total Russian Federation				-	-	-	-	-	-	-	-
Singapore	Hydro Aluminium Asia Pte. Ltd.	Trading company	100 %	16	-	-	7 935	104	10	9	555
	Hydro Aluminium Asia Rolled Products Private Limited	Sales company	100 %	2	-	-	3	1	-	-	4
	Hydro Holding Singapore Pte Ltd	Sales and local holding company	100 %	19	-	-	11	-	-	-	-394
Total Singapore				37	-	-	7 948	105	10	9	165
Slovakia	Hydro Extrusion Slovakia a.s.	Extrusion production	100 %	373	-	-	149	-	5	-	-50
	Sovalco a.s.	Primary aluminium production	55.3 %	498	-	-	3 381	259	39	55	494
	ZSNP DA, s.r.o.	Transportation	55.3 %	-	-	-	9	2	-	1	3
Total Slovakia				871	-	-	3 539	260	44	55	447
South Africa	Technal Systems South Africa (Pty) Ltd.	<i>Entity is in liquidation</i>	100 %	-	-	-	-	-	-	-	-12
Total South Africa				-	-	-	-	-	-	-	-12
Spain	Hydro Aluminium Iberia S.A.U	Remelter	100 %	51	3	-	819	43	3	7	173
	Hydro Aluminium Rolled Products Iberia S.L.	Sales company	100 %	6	1	-	9	1	-	-1	4
	Hydro Building Systems Spain S.L.U.	Building systems production	100 %	254	-	-	156	-1	-11	-	9
	Hydro Extruded Solutions Holding S.L.U	Local holding company	100 %	42	2	-	12	-3	-	-	548
	Hydro Extrusion Spain S.A.U	Extrusion production	100 %	383	18	-	340	-12	-	2	409
Total Spain				736	24	-	1 337	29	-9	8	1 142
Sweden	Hydro Aluminium Sverige AB	Sales company	100 %	3	-	-	4	1	-	-	6
	Hydro Building Systems Sweden AB	Building systems production	100 %	104	-	-	162	24	17	-	15

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
	Hydro Extruded Solutions AB	Local holding company R&D	100 %	42	1	2	17	30	21	2	1 686
	Hydro Extrusion Sweden AB	Extrusion production	100 %	919	10	-	635	-1	5	-6	268
	Sapa China Holding AB	Local holding company	100 %	-	-	-	-	-	-	-	-
Total Sweden				1 068	11	2	818	53	44	-3	1 975
Switzerland	Hydro Aluminium International S.A. (HAI S.A.) ⁷⁾	Sales company	100 %	10	-	17	20 260	1 253	126	-	-742
	Hydro Aluminium SA	<i>Entity liquidated during 2017</i>	-	-	-	-	-	-	-	-	-
	Hydro Aluminium Walzprodukte AG	Sales company	100 %	2	-	-	4	1	-	-	3
	Hydro Building Systems Switzerland AG	Sales company	100 %	44	-	-	61	3	-	-	33
Total Switzerland				56	-	17	20 325	1 258	126	-	-705
Turkey	Hydro Yapi Sistem Sanayi VE Ticaret AS	Sales company	100 %	33	-	-1	38	10	1	-	65
Total Turkey				33	-	-1	38	10	1	-	65
Ukraine	Sapa Profiles UA	<i>Entity is in liquidation</i>	100 %	-	-	-	-	-	-	-	-
Total Ukraine				-	-	-	-	-	-	-	-
United Arab Emirates	Hydro Building Systems Middle East FZE	Sales company	100 %	15	-	-	41	5	-	-	18
Total United Arab Emirates				15	-	-	41	5	-	-	18
United Kingdom	Hydro Aluminium Deeside Ltd.	Remelter	100 %	48	1	-	706	16	3	5	46
	Hydro Aluminium Rolled Products Ltd.	Sales company	100 %	6	-	-	11	3	1	1	2
	Hydro Building Systems UK Ltd.	Building systems production	100 %	118	-	-	139	-11	2	7	341
	Hydro Components UK Ltd.	Extrusion component production	100 %	324	13	-	181	5	1	8	185
	Hydro Extrusion UK Ltd.	Extrusion production	100 %	550	-	-	362	11	2	-1	-32
	Hydro Holdings UK Ltd.	Local holding company	100 %	-	-	-	2	1	-	-8	155
	Hydro Motorcast Leeds (Property) Ltd	<i>Entity liquidated during 2017</i>	100 %	-	-	-	-	-	-	-	-
	Sapa Aluminium Extrusion Ltd.	<i>Entity is dormant</i>	100 %	-	-	-	-	-	-	-	-
	Sapa Building Systems (Wakefield) Ltd.	<i>Entity is dormant</i>	100 %	11	-	-	-	-	-	-	-
	Sapa UK Ltd.	<i>Entity is dormant</i>	100 %	-	-	-	-	-	-	-	27
Total United Kingdom				1 057	14	-	1 401	26	9	12	724

Jurisdiction	Legal entity	Description of the entity's activity	Ownership 31.12	Number of permanent employees ¹⁾	Number of temporary employees ¹⁾	Interest paid to Hydro legal entities in another jurisdiction, NOK million	Revenue, NOK million ²⁾	Income before tax, NOK million ³⁾	Income taxes, NOK million ⁴⁾	Income taxes paid, NOK million ⁵⁾	Retained earnings, NOK million ⁶⁾
USA	EMC Ashtabula, Inc.	<i>Entity is dormant</i>	100 %	-	-	-	-	-2	28	-	-1 966
	EMC Metals Inc	Local holding company	100 %	-	-	-	-	586	21	-	416
	Hydro Aluminum Metals USA, LLC	Local holding company	100 %	134	2	-	5 161	108	7	-	-1 851
	Hydro Aluminum Tomago Inc.	Local holding company	100 %	-	-	-	-	1	-	-	-165
	Hydro Aluminum USA, Inc.	Sales company	100 %	6	-	-	17	6	-	-	12
	Hydro Extruder LLC	Extrusion production	100 %	1 083	-	-	1 296	-16	-42	7	423
	Hydro Extrusion Dehli LLC	Extrusion production	100 %	326	-	-	323	-22	-8	3	45
	Hydro Extrusion North America LLC	Extrusion production	100 %	1 099	-	1	1 059	-29	60	2	-2 204
	Hydro Extrusion Portland Holding Inc.	Local holding company	100 %	615	-	-	-	-9	-	-	5
	Hydro Extrusion Portland Inc.	Extrusion production	100 %	-	-	-	444	-18	-13	-	616
	Hydro Extrusion USA LLC	Extrusion production and support services	100 %	2 501	10	4	2 499	1 144	-131	20	303
	Hydro Holding North America Inc.	Local holding company	100 %	-	-	-	-	-	-	-	-
	Hydro Metals Holding US LLC	Local holding company	100 %	-	-	-	-	-	-	-	-
	Hydro Precision Tubing Adrian Inc.	<i>Entity is dormant</i>	100 %	-	-	-	-	-2	14	-	-279
	Hydro Precision Tubing Louisville Inc.	<i>Entity is dormant</i>	100 %	-	-	-	-	-	1	-	-66
	Norsk Hydro North America, Inc.	Local holding company	100 %	-	-	1	-	162	-35	17	-196
	Sapa Precision Tubing Central LLC	Precision tubing production	100 %	-	-	-	-	-	-	-	-
	Sapa Precision Tubing LLC	Precision tubing production	100 %	-	-	-	114	11	-	-	122
	Sapa Precision Tubing Rockledge	Precision tubing production	100 %	174	2	-	264	17	-14	-	-102
	Total USA				5 938	14	6	11 178	1 938	-110	49
Vietnam	Sapa Ben Thanh Aluminium Profiles Co.	Extrusion production	65 %	234	5	-	50	-2	-	-	-6
Total Vietnam				234	5		50	-2	-	-	-6
Total Eliminations, non-controlling interests and goodwill and excess values not attributable to specific legal entities							-66 950	-14 330	-644	-10	-52 110
Total joint operations and joint ventures							3 987	3 148	-4	9	19 165
Grand total ⁸⁾				34 625	1 646	56	109 220	11 075	1 891	2 180	56 435

- 1) Number of employees is based on the legal entity each employee is employed by
- 2) Revenue consists of external and internal revenue from sales of products and services, and realized and unrealized results from derivatives related to sale of products. Elimination of sale to other Hydro companies is presented on a combined basis in "Eliminations". Revenue in this report equals revenue in Hydro's consolidated financial statements
- 3) For the composition of income before tax, please refer to consolidated income statements and related notes
- 4) For a description and the composition of income taxes, please refer to consolidated income statements and related notes
- 5) Income taxes paid represents the actual payments made during the year independent of which year the tax relates to. In some tax regimes including Brazil, tax payments include settlement of tax liabilities with tax credits generated from other payments to federal authorities
- 6) Retained earnings consists of accumulated gains and losses, net of distributed profits from the point of view of the legal entity. Retained earnings existing in the companies at the time of Hydro's acquisition is deducted in "Eliminations". In addition, "Eliminations" consists of unrealized gains in transactions between Hydro companies
- 7) Interest paid from Alumina do Norte do Brasil S.A. and Hydro Aluminium International SA relates to interest on loans and credit facilities in Norsk Hydro ASA
- 8) Only figures where a total is presented can be consolidated

Entity descriptions

In the table above, each company has been given a short description of its main activities. Some of the entities can also have other activities as listed below. For a complete overview of the description given of each company in public registers, see www.hydro.com/reporting2017

Short description	Main activities
Alumina refinery	Refining of bauxite to alumina. Hydro operates the Alunorte alumina refinery
Bauxite mining	Mining of bauxite, the raw material for aluminium productions. Hydro has only one consolidated bauxite mine
Building systems production	Manufacturing or production of building systems
Company kindergarden	Kindergarden for children of employees or tenants
Dies production	Production of dies for extrusion of aluminium
Energy sourcing	Sourcing of energy for Hydro operations
Extrusion component production	Manufacturing or production of components
Extrusion production	Includes one or more extrusion plant(s) and is normally also responsible for sales and marketing of its products. R&D activities can also be included
Finishing	Slitting of rolled products for automotive
High-purity aluminium production	Production of aluminium of minimum 99.99 percent purity
Insurance	In-house insurance
IT shared services	IT shared services for Hydro operations
Local holding company	Holding & Financing. Holding shares or other equity instruments. Administrative, management or support services
Pension fund	Employee pension fund
Power production	Production of hydropower in Norway
Power trading	Trading of power and energy services
Precision tubing production	Manufacturing or production of extruded aluminium products, such as aluminium tubes, micro-port extrusions, and welded aluminium tubes
Primary aluminium production	Includes one or more primary aluminium plant(s), and may also include casting, anode production and/or R&D activities
Public affairs	Hydro's Brussels office
Real estate	Development and property management. Owner of land. Developing of infrastructure
R&D	Research and development activities
Remelter	Facility remelting standard ingots, process scrap and/or post-consumer scrap
Rolling mill	Production of rolled products
Sales company	Sales, marketing and distribution offices
Support services	Administrative, management or support services
Tool and spare parts services	Provides tool and spare parts services, in addition to administrative and management support
Trading company	Sales, marketing and distribution of casthouse aluminium products
Transportation	Transport of raw materials by train tracks

Norwegian code of practice for corporate governance

This chapter provides a detailed overview of how Hydro follows the Norwegian Code of Practice for Corporate Governance. Information that Hydro must provide in accordance with the Norwegian Accounting Act, section 3.3b, is also included. This overview should be seen in context with the general corporate governance report provided in Hydro's annual report for 2017.

Deviations from the Norwegian code of practice for corporate governance

In the board of directors' assessment, we have deviations from three sections in the code of practice:

Section 6, General meeting of shareholders:

Hydro has three deviations from this section:

1) *"Ensure that the members of the board of directors ... are present at the general meeting"*: The entire board of directors has generally not participated in the general meeting. Matters under consideration at the general meeting of shareholders have not yet required this. The chairperson of the board of directors is always on hand to present the report and answer any questions. Other board members participate as needed. The board of directors considers this to be adequate.

2) *"Ensure that the members of ... the nomination committee ... are present at the general meeting"*: The entire nomination committee has generally not participated in the general meeting. Matters under consideration at the general meeting of shareholders have not yet required this. The chairperson of the nomination committee is always on hand to present the nominations and answer any questions. Other committee members participate as needed. The nomination committee considers this to be adequate.

3) *"Making arrangements to ensure an independent chairman for the general meeting"*: Section 9 in Hydro's articles of association states that the general meeting is chaired by the chairperson of the corporate assembly, or, in his or her absence, by the deputy chair. This arrangement has been approved by the company's general meeting.

Section 7, Nomination committee:

Hydro has one deviation from this section:

"The company's guidelines for the nomination committee should establish rules for rotation of the members of the nomination committee": The nomination committee has no formal rules on rotation of its members. The nomination committee's mandate expresses, however, the intention to "over the course

of time balance the need for continuity against the need for renewal in respect of each governing organ." The chairperson of the committee, who is also the chairperson of the corporate assembly, has been a member of the committee since 2012, became acting chairperson in 2014 and was elected chairperson in 2015. The other members were elected to the nomination committee in 2008, 2014 and 2015.

Section 14, Takeovers:

Hydro has one deviation from this section:

"The board of directors should establish guiding principles for how it will act in the event of a take-over bid": The board of directors has chosen not to prepare explicitly formulated general principles for handling takeover bids. The reason for this is that the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owns 34.3 percent of the Hydro shares (as of 31.12.2017) and has by virtue of the Active Ownership Report (Report to the Storting no. 27 (2013-2014)) expressed a long-term ownership perspective in the company for the purpose of retaining its head office and research activities in Norway.

1. Statement of corporate governance

Hydro follows the Norwegian Code of Practice for Corporate Governance of 2014. The Hydro Way represents our framework for leadership, organization and culture and is the foundation for our governance system, including our code of conduct. Hydro's Code of Conduct has been approved by the board of directors, which also oversees that Hydro has appropriate corporate directives for, among other things, risk management, HSE and corporate responsibility.

References: Learn more about The Hydro Way at www.hydro.com/principles

2. Hydro's business

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 and extruded products as well as recycling. Based in Norway, the company has 35,000 employees involved in activities in 40 countries on all continents. Rooted in more than a century of experience in renewable energy production, technology development and partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.

The company's objectives, as stated in its articles of association, are to engage in industry, commerce and transport, to utilize energy resources and raw materials, and to engage in other activities connected with these objectives. Its business activities may also be conducted through participation in or in cooperation with other enterprises.

References: Hydro's articles of association are available at www.hydro.com/governance

3. Equity and dividend

In the opinion of the board of directors, Hydro's equity capital is appropriate to the company's objectives, strategy and risk profile.

Hydro's dividend policy is to pay out a predictable dividend and in the long term to pay out, on average, 40 percent of net income as ordinary dividend over the cycle to our shareholders. The dividend policy has a floor of NOK 1.25 per share.

The board of directors may obtain authorization from the general meeting of shareholders to buy back Hydro shares in the market. In such cases, the board will normally request that the shares are acquired in the open market, and that the authority lasts no longer than until the next general meeting.

When the general meeting of shareholders considers whether or not to authorize the board of directors to carry out share capital increases for different purposes, each purpose must be considered separately by the meeting. Such authorization will be limited in time, and will last no longer than until the date of the next general meeting. Authorization granted to the board of directors is restricted to specific purposes. Such authorization was last given in 2010 in connection with the Vale transaction.

The dividend per share is normally proposed by the board of directors, based on Hydro's dividend policy, and approved by the general meeting of shareholders.

See also item 4.

References: Learn more about Hydro's equity and dividend policy at page 136 in Hydro's Annual Report 2017

4. Equal treatment of shareholders

Hydro has one share class. All the shares have the same rights.

Transactions involving own shares are normally executed on the stock exchange. Buybacks of own shares are executed at the current market rate.

Shareholders who are registered in the Norwegian Central Securities Depository (VPS) may vote in person or by proxy at the general meeting of shareholders. Invitations are sent to the shareholders or to the bank/broker where the shareholder's securities account is held.

Sales of shares to employees in Norway are conducted at a discount to market value. See also item 6.

Contact between the board of directors and the investors is normally conducted via the management. Under special circumstances the board, represented by the chairperson, may conduct dialogue directly with investors.

Transactions with related parties

Hydro's Code of Conduct contains guidelines for, among other things, how any conflicts of interest that may arise should be dealt with. The code applies to all of Hydro's board members and employees. It is the opinion of the board of directors that there were no transactions that were material between the group and its shareholders, board members, corporate management board or related parties in 2017 except those described under item 8.

Regulation of share issues and preemptive rights are described in the company's articles of association.

State ownership

As of December 31, 2017 the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owned 34.3 percent of Hydro's issued shares. Hydro holds regular meetings with the Ministry, where topics discussed include Hydro's economic and strategic development, corporate social responsibility, and the Norwegian State's expectations regarding results and returns on investments. These meetings are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in Norwegian company and securities legislation, not least with respect to equal treatment of shareholders. As a shareholder, the Norwegian state does not usually have access to more information than what is available to other shareholders. If state participation is imperative and the government must seek approval from the Norwegian parliament (Stortinget), it may be necessary to provide the Ministry with insider information. In such cases, the state is subject to the general rules that apply to the handling of such information.

References: Learn more about major shareholders at page 137 in Hydro's Annual Report 2017 and sale of the Hydro share to employees in note 17 (Employee remuneration) to the consolidated financial statements. Hydro's code of conduct can be found on www.hydro.com/principles. Hydro's articles of association can be found on www.hydro.com/governance. See also note 11 (Related party information) to the consolidated financial statements.

5. Freely negotiable shares

The Hydro share is freely negotiable. It is among the most traded shares on the Oslo Stock Exchange and is subject to efficient pricing. As of December 31, 2017 the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owned 34.3 percent of Hydro's shares, while the

Government Pension Fund Norway owned 6.5 percent. Shareholding is based on information from the Norwegian Central Securities Depository (VPS) as of December 31, 2017. Due to lending of shares, an investor's holdings registered in its VPS account may vary.

References: Learn more about the Hydro share at page 136 in Hydro's Annual Report 2017.

6. General meeting of shareholders

Notice of a general meeting of shareholders with supporting information is normally published on www.hydro.com more than three weeks in advance, and is sent to the shareholders at least three weeks before the meeting is held.

Notice of a general meeting of shareholders provides information on the procedures which shareholders must observe in order to participate in and vote at the meetings. Such notice also details:

- the procedure for representation by proxy, including the use of a form of proxy
- the right of shareholders to propose resolutions for consideration by the general meeting of shareholders.
- the website where the notice of the meeting and other supporting documents will be made available

The following information is available at www.hydro.com:

- information on the right of shareholders to propose matters for consideration by the general meeting of shareholders
- how to make proposals for resolutions for consideration by the general meeting or how to comment on matters for which no resolution is proposed
- form of proxy

Our aim is that resolution proposals and supporting information that are distributed are sufficiently detailed and comprehensive to enable shareholders to reach decisions on the matters to be considered at the meeting.

The notification deadline for shareholders wishing to attend the general meeting of shareholders is maximum five days prior to the meeting.

Shares registered in a nominee account must be re-registered in the Norwegian Central Securities Depository (VPS) and be registered in the VPS on the fifth working day before the general meeting of shareholders in order to obtain voting rights.

Shareholders who are unable to attend in person may vote by proxy. Hydro will nominate a person who will be available to vote on behalf of shareholders as their proxy.

The general meeting of shareholders votes for each candidate nominated for election to the company's corporate assembly and nomination committee.

To the extent possible, the form of proxy will facilitate separate voting instructions for each matter to be considered by the meeting and for each of the candidates nominated for election. It is possible to vote electronically in advance.

The general meeting of shareholders is chaired by the chairperson of the corporate assembly or, in his or her absence, by the deputy chairperson.

The chairperson of the board of directors, minimum one nomination committee representative, the President and CEO, and the auditor attend the general meeting.

References: Learn more about the general meeting of shareholders at www.hydro.com/investor

Deviations: See the first page of this section.

7. Nomination committee

In accordance with Hydro's articles of association, the company must appoint a nomination committee. This committee is comprised of minimum three members, maximum four, who are either shareholders or shareholder representatives. The committee's chairperson and members are appointed by the general meeting of shareholders. At least two, including the chairperson, must be elected from among the shareholder-elected representatives in the corporate assembly. If the chairperson resigns as member of the Nomination Committee during the electoral period, the Nomination Committee shall elect among its members a new chairperson for the remainder of the new chairperson's electoral period.

The guidelines for the nomination committee have been approved by the general meeting of shareholders, which also determines the remuneration of the committee. All shareholders may propose candidates for the nomination committee at any time. In order to be considered at the next ordinary election, proposals must be submitted by the end of November in the year before the election year.

The recommendations of the nomination committee include details on the candidates' background and independence.

The nomination committee ensures that due attention is paid to the interests of the shareholder community and the

company's requirements for competence, capacity and diversity. The nomination committee also takes account of relevant statutory requirements regarding the composition of the company's governing bodies.

According to its mandate, the Nomination Committee shall be receptive to external views and shall ensure that any deadlines for proposals regarding members of the Corporate Assembly, the Nomination Committee and the Board of Directors are published well in advance on the Company's website. In carrying out its duties the Nomination Committee should actively maintain contact with the shareholder community and should ensure that its recommendations are anchored with major shareholders.

All members of the nomination committee are independent of Hydro's board of directors, chief executive officer and other executive management staff. As the largest shareholder, the Norwegian state is represented on the nomination committee by department head Mette I. Wikborg.

References: Hydro's Articles of Association can be found at www.hydro.com/governance. More information about Hydro's nomination committee can be found at the same site. Members of the nomination committee are listed on www.hydro.com/governance. Nominations can be submitted electronically, also from www.hydro.com/governance

Deviations: See the first page of this section.

8. Corporate assembly and board of directors: composition and independence

All board directors, members of the board committees and members of the corporate assembly are independent of the company's executive management and material business relationships. One member of the corporate assembly is dependent of major Hydro shareholders: Nils Bastiansen, who is an employee of the Government Pension Fund Norway, is a member of the corporate assembly. There were a few matters where certain board members were disqualified. Liv Monica Stubholt has been a partner of Advokatfirmaet Selmer ANS since 1 September 2015. Selmer invoiced services to Hydro in 2017 with a legal fee of NOK 2 million. Stubholt did not participate personally or directly in any form of provisions of legal services to Hydro. Finn Jebsen holds, personally and through three companies controlled by him (Fateburet AS, Bele AS and Bela AS), a total of 387 740 shares in Orkla ASA. As a consequence he did not participate in the decision of the board of directors to acquire the remaining 50% of the shares in Sapa AS, nor in the deliberations of the board of directors on the value of the transaction.

Two-thirds of the corporate assembly and their deputies are elected by the general meeting of shareholders. The nomination committee nominates candidates with a view to obtain a broad representation by the company's shareholders and other relevant stakeholders with competence in, for example, technology, finance, and corporate social responsibility.

The corporate assembly elects the board of directors, including its chair and deputy chair.

In compliance with Hydro's articles of association, the board of directors consists of between nine and 11 members. These are elected for a period of up to two years.

The nomination committee aims to achieve a board composition whereby the members complement each other professionally and the board of directors is able to function as a corporate body.

As of December 31, 2017, seven of the board's directors owned a total of 117,816 shares. Hydro has no share purchase program for board members, with the exception of the employee representatives, who are entitled to buy shares through the Norwegian employee share purchase scheme. All share purchase transactions are conducted in compliance with the Securities Trading Act.

References: The Government Pension Fund Norway is a significant shareholder in Hydro. An overview of the members of the corporate assembly, the current composition of the board of directors and information about their independence, and Hydro's articles of association at www.hydro.com/governance

9. The work of the board of directors

The board of directors has established procedures for its own work and that of the company's management, with particular emphasis on clear internal division of responsibilities whereby the board has responsibility for supervising and administering the company, and the company's management has responsibility for the general operation of the group.

If the chairperson of the board is or has been actively involved in a given case, for example in negotiations on mergers, acquisitions etc., another board director will normally lead discussions concerning that particular case.

The board of directors has an annual work plan, with particular emphasis on objectives, strategy and implementation.

Since 2001, Hydro has had an audit committee and a compensation committee. The audit committee has four

members and the compensation committee three members. The shareholder-elected members are all independent of the company. In the opinion of the board of directors, the audit committee meets the Norwegian requirements regarding independence and competence.

The board of directors conducts an annual self-assessment of its work, competence and cooperation with management and a separate assessment of the chairperson of the board. In addition, the audit committee performs a self-assessment. The assessment results are submitted to the nomination committee, which in turn assesses the board's composition and competence.

References: See the section Board developments in the Board of Directors' report. Information about the board of directors and its committees, and the board members' competence can be found on page 144-145 and 148-149 in Hydro's Annual Report 2017. The board of directors' mandate can be found at www.hydro.com/governance

10. Risk management and internal controls

The board of directors ensures that the company has sound internal controls and appropriate risk management systems through, for example, an annual review of the key risk areas and the company's internal controls. Internal audit corporate reports directly to the board of directors, but is for administrative purposes placed under the purview of the chief financial officer.

Hydro's internal control system includes all parts of our corporate directives, including our code of conduct and HSE and corporate social responsibility requirements. A more detailed description of the company's internal controls and risk management systems related to financial reporting can be found at www.hydro.com/governance

References: A review of Hydro's major risks can be found in the section Risk review in the Board of Directors' report.

11. Remuneration of the board of directors

The board directors elected by the shareholders perform no duties for the company other than their board duties.

Remuneration is determined by the corporate assembly, based on the recommendation of the nomination committee. The nomination committee recommends compensation with the intention that it should reflect the board's responsibility, competence and time commitment as well as the company's complexity and global activities compared with the general level of directors' fees in Norway. Remuneration of the board of directors is based neither on performance nor on shares.

References: All aspects of remuneration of the board of directors are described in note 10 (Board of directors and corporate assembly) to the consolidated financial statements. See also Hydro's articles of association.

12. Remuneration of the executive management

The board of directors has established guidelines for remuneration of members of the executive management. These guidelines are communicated to the general meeting of shareholders and included in the annual report. The guidelines for determining remuneration of the executive management are based on the main principles for Hydro's remuneration policy, which is that Hydro shall pay its employees a total compensation package that is competitive, but not among the highest, and in line with good industry standards locally. Where appropriate, compensation packages should also include a performance-based component, and the basic salary should reflect individual performance.

The guidelines are also intended to contribute to long-term value creation for the company's shareholders. A ceiling has been set on performance-based compensation. The company has share-based long-term incentive programs, but no share option scheme for its executive management.

The board of directors' statement on management remuneration is made public through note 8 to the consolidated financial statements and sent forward to the general meeting of shareholders for advisory vote to the annual general meeting of shareholders.

References: The board's guidelines for management remuneration are described in note 8 (Board of directors' statement on management remuneration) to the consolidated financial statements. All aspects of remuneration of executive management are described in note 9 (Management remuneration). The employee share purchase plan is described in note 17 (Employee remuneration). Hydro's remuneration policy is also described in Hydro's people policy, which can be found at www.hydro.com/principles

13. Information and communication

Hydro has established guidelines for the company's reporting of financial and extra-financial information based on transparency and with regard to the requirement of equal treatment of all parties in the securities market. This also pertains to contact with shareholders outside of the general meeting of shareholders.

Shareholder information is available at www.hydro.com. The financial statements and annual report are sent free of charge to shareholders on request. Notice of general meeting of shareholders is sent directly to shareholders with known addresses unless they have consented to receive these

documents electronically. All information sent to the shareholders is made available at hydro.com when distributed. Presentation of the quarterly reports as well as the annual shareholder meeting are simultaneously broadcasted through web casts. All relevant information is sent to the Oslo Stock Exchange electronically for public storage.

Hydro has emergency plans that are regularly exercised. Rules for who can speak on behalf of the company are regulated through Hydro's code of conduct.

References: A financial calendar is available in this report and at www.hydro.com/investor where also more information about web casts and the Hydro share can be found, including key legal information for shareholders in Norsk Hydro ASA. Hydro's code of conduct is available at www.hydro.com/principles

14. Takeovers

The board of directors will handle takeover bids in accordance with Norwegian law and the Norwegian Code of Practice for Corporate Governance. There are no defense mechanisms against acquisition offers in our articles of association or in any underlying steering document. We have not implemented any measures to limit the opportunity to acquire shares in the company. See also item 5.

Deviations: See the first page of this section.

15. Auditor

The external auditor annually presents to the audit committee the main features of the plan for the audit of Hydro.

The external auditor participates in considering relevant matters in meetings of the audit committee. The minutes from these meetings are distributed to all the board directors. This practice is in line with the EU audit directive. Each year the auditor expresses its opinion on internal control procedures to the audit committee including identified weaknesses and proposals for improvement.

The auditor participates in board meetings where the company's financial statements are discussed. In the meetings the auditor will review material changes in the company's accounting policies, assess material accounting estimates and any other material matters on which the auditor and management may disagree, and identify weaknesses in and suggest improvements to the company's internal controls. The board of directors and the audit committee meet at least annually, and hold meetings with the external auditor without members of the corporate management present.

Hydro places importance on independence and has clear guidelines regarding the use of services from external auditors. All use of services from an external auditor, including non-audit services, is subject to prior approval as defined by the audit committee.

Remuneration of the auditor is stated in the annual report. It is also included as a separate agenda item to be approved by the annual general meeting of shareholders.

In 2010, the general meeting of shareholders chose KPMG as new external auditor for the group with effect from the reporting period 2010.

References: Learn more about the external auditor on page V41-V42, 143 and 149 in Hydro's Annual Report 2017, note 42 (Auditor's remuneration) to the consolidated financial statements and page F78.

UK Modern Slavery Act transparency statement

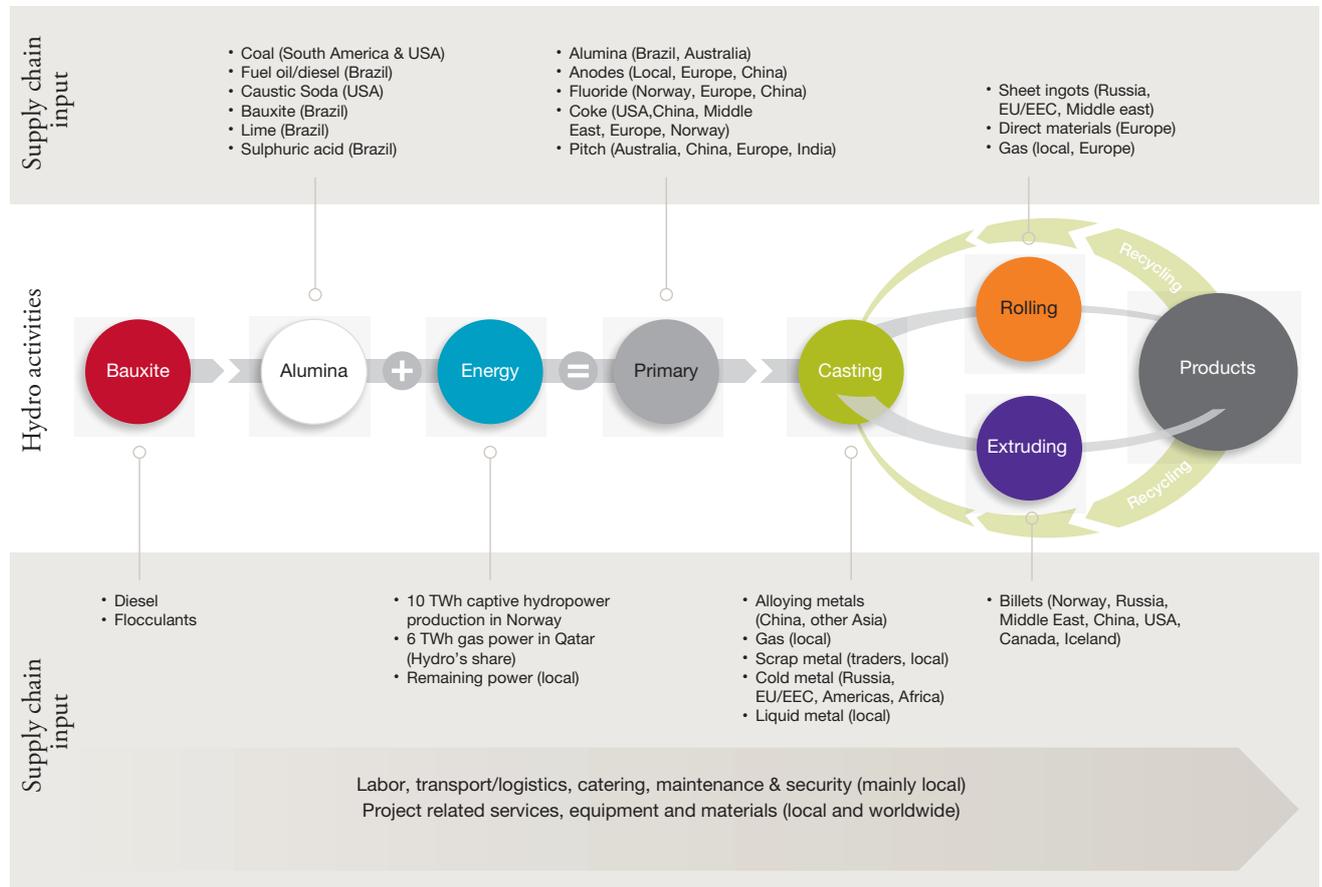
Hydro's UK Modern Slavery Act transparency statement has been developed to comply with the legal requirements as stated in the UK Modern Slavery Act, valid to Hydro from 2016. The reporting requirement applies to Hydro as a supplier of goods with a total turnover of £36 million or more in the UK. The statement is valid for Norsk Hydro ASA and its consolidated subsidiaries including Hydro Aluminium Deeside Ltd, Hydro Components UK Ltd and Hydro Extrusion UK Ltd. Entities that are not fully owned by, but are controlled by Hydro, can have different policies. We believe that their relevant policies are aligned with the ones of Hydro.

The UK Modern Slavery Act transparency statement is approved by the board of directors.

Our business and supply chain

Hydro is a fully integrated aluminium company with 35,000 employees in 40 countries on all continents, following the Sapa acquisition 2 October 2017. 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 in the global aluminium industry. Our operations include one of the world's largest bauxite mines and the world's largest alumina refinery, both located in Brazil. We have primary metal production facilities in Europe, Canada, Australia, Brazil and Qatar. Hydro is a large operator of power production in Norway. Extrusion activities are mainly located in Europe and North America, but we also have significant operations in Asia and Brazil. Hydro is present within all market segments for aluminium, with sales and trading activities throughout the value chain serving more than 30,000 customers. Following the Sapa acquisition, Hydro has more than 30,000 active suppliers globally, the majority of which are situated close to our production facilities.

Hydro's supply chain



The figure shows Hydro's supply chain related to its value chain, and does not reflect the current organizational structure.

Our policies and commitments

As a global aluminium company with mining interests, ensuring responsible conduct in relation to society at large is important throughout Hydro's activities. We have to consider our exposure to human rights violations, both within our own operations and in the supply chain. We require adherence to external laws and regulations as well as internal directives relating to identifying and mitigating human rights violations.

Hydro is committed to respecting and promoting the internationally recognized human rights, including the rights of all individuals and groups actually or potentially affected by our operations, including:

- Our direct employees and third-party employees working under our supervision
- Employees of our suppliers and contractors
- Individuals and groups in the communities in which we operate
- Individuals and groups affected by the use and disposal of our products.

We support the principles underlying the Universal Declaration of Human Rights, the UN Global Compact and ILO's eight core conventions. Our human rights policy is based on the UN Guiding Principles on Business and Human Rights, and we report on our adherence in the GRI index. We are a member of the International Council on Mining and Metals (ICMM) and are committed to following their principles and position statements. We use the GRI Standards for voluntary reporting of sustainable development.

Hydro works together with other organizations for decent working conditions in the value chain, inter alia through Aluminium Stewardship Initiative and ICMM.

Hydro's supplier requirements regarding corporate responsibility are, as stated in our global directives and procedures, an integral part of all stages of the procurement process. The vast majority of suppliers to Hydro, have to confirm that they are in compliance with Hydro's Supplier Code of Conduct. The Supplier Code of Conduct is then attached to the contract and made binding through contractual clauses. The contracts shall include clauses regarding auditing rights and the supplier's responsibility to actively promote the principles set out in Hydro's Supplier Code of Conduct with its own suppliers/contractors and sub-suppliers/subcontractors of any tier that have a material contribution to the supply of goods and services to Hydro under the contract.

For legal entities where Hydro holds less than 100 percent of the voting rights, Hydro representatives in the boards of directors shall endeavor to implement the ambitions and principles related to Hydro's global policies including human rights.

Training and capacity building

Leaders and specialists go through training on CSR and human rights on a regular basis. The training is related to Hydro's CSR policy, guidelines and aspirations supporting our business strategy and emphasizing responsible sourcing.

During 2017, Hydro had a thorough process to develop a strategic approach on our contribution to the UN Sustainable Development Goals. The process involved employees from all parts of the organization and external stakeholders. The selected focus areas and targets from this process are the framework for an internal training program on our social impact that is under development and will be launched in 2018.

Hydro has also further developed the cooperation with FIEPA (Pará Federation of employers) and REDES (a supplier development network developed by the Industry Federation of Pará), both in Brazil. Together we have organized training for 23 local Hydro suppliers and strengthened their competence on HSE, management systems, quality and labor rights. About 2,100 employees have been reached so far.

Risk assessments of human and labor rights

As a global aluminium company with mining interests and about 30,000 active suppliers, Hydro is at risk of being exposed to human rights violations including modern slavery. Human rights are integrated in our business planning, enterprise risk management and follow-up process including relevant key performance indicators. Human rights risks and issues are evaluated in the annual enterprise risk mapping. We also carry out more specific analysis related to operations or certain countries or regions. Our participation in ICMM also gives input to our assessments of human rights risks.

In 2017, the Danish Institute for Human Rights (DIHR) performed a comprehensive mapping of Hydro's human rights risks. The mapping covered all countries in which Hydro operates, excluding Extruded Solutions, and the report was made publicly available in January 2018.

Hydro's procedure for integrity risk management of business partners includes suppliers and customers, strategic partners and intermediaries/agents and sets requirements for integrity due diligence. Implementation is risk-based and takes into

consideration contractual value, country risk, etc. Business partners to Hydro shall be risk-assessed prior to entering into a new contract or renewing an existing contract.

The risk of incidents of child labor abuse, compulsory or forced labor in our supply chain is considered to be low in the majority of Hydro's own operations. We do, however, recognize a risk of forced or compulsory labor among suppliers in the Middle East, South America and Asia.

Responsible behavior

We recognize that business can have an important role in supporting the fulfillment of human rights. Hydro did not detect any significant breaches of human rights in our own operations in 2017. Some of the measures we pursue to ensure integrity and responsible behavior include:

- Ongoing human rights due diligence, including of joint ventures and suppliers
- Continuous stakeholder engagement linked to existing operations and new projects

Through our operations, we contribute to the economic and human development of our employees and the communities in which we operate. We work to ensure informed and effective participation by individuals and groups who are actually or potentially affected by our operations. We respect indigenous peoples' rights, including the right to free, prior and informed consent, and the rights of local communities when our activities may affect their lands, territories and livelihoods.

Hydro's Corporate Social Responsibility (CSR) is built on the basis of making a positive difference by strengthening our business partners and the local communities where we operate. To do this, we target the fundamental drivers of long-term development. In line with stakeholder expectations and needs, and through strong partnerships, we aim to:

- Contribute to quality education in our communities
- Promote decent work throughout the value and supply chain
- Foster economic growth in our communities
- Strengthen local communities and institutions through capacity building on human rights and good governance

Our most important contribution toward respecting human rights is to secure decent working conditions in our organization and promote the same standards in jointly operated and minority-owned companies, and with our suppliers. In Qatalum, in Qatar, where Hydro holds a 50 percent share, the large majority of employees are migrant

workers. We strive to secure good working conditions for people employed directly as well as those supplied by contractors.

We are concerned about fundamental labor rights, such as freedom of association and collective bargaining, minimum wage requirements and the regulation of working hours. We have a long tradition of maintaining a good dialogue with employee organizations. Hydro's major sites in Europe and Brazil are unionized. Extruded Solutions has a major presence in the USA, and 60 percent of our US employees are working at unionized sites. We have activities in countries where trade unions are restricted, where we look for alternative forums to empower employees. In 2016, Hydro renewed its global frame agreement with labor unions until the end of 2018. The agreement aims at creating an open channel of information between the parties about industrial relation issues in order to continuously improve and develop good work practices in Hydro's worldwide operations.

We establish or facilitate access to effective grievance mechanisms for individuals and groups that may be affected by our operations.

All suppliers and customers registered in our main accounting systems are screened on a weekly basis against international sanction lists, in particular related to anti-terror. Furthermore, supplier audits and site visits are performed by Hydro personnel and independent auditors based on risk analysis. In total 109 supplier audits were performed in 2017, of which 98 included HSE and CSR related topics. Our approach to any audit finding is to correct, then act in a transparent manner, learn and implement corrective actions. We are in particular concerned about corrective actions in relation to possible child, forced or compulsory labor.

Security guards are employed to protect our personnel and assets. No armed guards were engaged in our activities in 2017, and there were no significant incidents reported in connection with the use of security guards. Hydro is committed to the Voluntary Principles on Security and Human Rights.

Our compliance system is based on prevention, detection, reporting and responding. Information pertaining to Hydro's human rights, policies and compliance is regularly communicated to the board of directors, the corporate management board, business area management teams, and other relevant parties, including union representatives.

All documents listed under References below are also valid for all our subsidiaries subject to the UK Modern Slavery Act.

Sapa had similar requirements as embedded in Hydro global directives and procedures. Implementation of Hydro's global directives and procedures has started in the new business area Extruded Solutions.

References

A number of Hydro's steering documents are relevant for our work against modern slavery. These include, but are not limited to:

- NHC-CD07 Hydro's Code of Conduct
- GD02 Hydro's People Policy
- GD03 Health, Security, Safety and Environment
- GD09 Hydro's Social Responsibility
- GP09-01 Corporate Social Responsibility in the supply chain
- GP09-01 Hydro Supplier Code of Conduct
- GP09-03 Hydro's Human Rights Policy
- The Hydro Integrity Program Handbook

All documents are available at www.hydro.com/principles

Additional information

Terms and definitions

ADRs	American Depositary Receipts, evidencing a specified number of ADSs
ADSs	American Depositary Shares, each ADS representing one deposited ordinary share
AluNorf	Aluminium Norf GmbH
AMPS	Aluminium Metal Production System. Hydro's best practice system and standard for world-class production and improvement in our primary metal business
Articles of Association	The articles of association of the Company, as amended and currently in effect
Audit Committee	The audit committee of the Company's Board of Directors
BABS	Bauxite & Alumina's best practice system, based on AMPS (see above) and adjusted to B&A needs
BAT	Best Available Techniques for pollution prevention and control
B&A	Hydro's Bauxite & Alumina business area
CO ₂ equivalents (CO ₂ e)	A measure used to compare the emissions from various greenhouse gases based upon their global warming potential
Code	The U.S. Internal Revenue Code of 1986, as amended
Company	Norsk Hydro ASA, a Norwegian public company limited by shares, or Norsk Hydro ASA and its consolidated subsidiaries, as the context requires
Compensation Committee	The compensation committee of the Company's Board of Directors
Consolidated Financial Statements	The consolidated financial statements and notes included in the Company's annual report to shareholders
Corporate Assembly	The corporate assembly, a body contemplated by Norwegian companies' law, with responsibility, among other things, for the election of the members of the Company's Board of Directors and nomination of the external auditor
Corporate Management Board	The corporate management board established by the Company's President and Chief Executive Officer to assist him in discharging his responsibilities
CRU	CRU International Limited
CSR	Corporate Social Responsibility
Disclosure Committee	The disclosure committee of the Company, comprised of members of senior management, which is responsible for reviewing financial and related information before it is made public
EEA	European Economic Area
EEA Agreement	The European Economic Area Agreement
EFTA	European Free Trade Association
EU	European Union
GHG	Greenhouse gas emissions
HSE	Health, security, safety and environment
Hydro	Norsk Hydro ASA and its consolidated subsidiaries
Hydro Aluminium	The aluminium business of Hydro, comprising the sub-segments Metals, Rolled Products, and Extrusion and Automotive
Hydro Monitor	Hydro's employee satisfaction survey, performed for all employees every second year
ILO	International Labor Organization
Industry 4.0	An initiative within Primary Metal focusing on advanced analytics, automation, robotics, and digital and predictive maintenance.
kWh	Kilowatt hour
LME	London Metal Exchange
mm	Millimeter
Mt (or mt)	Metric tonne (1,000 kilograms)
My Way	The process we use at Hydro for employee feedback and development. This process consists of regular dialogues between employee and leader, as well as a system tool.
NOK	Norwegian kroner
Nomination Committee	The nomination committee provided for in the Company's Articles of Association and operating under a charter established by the shareholders' representatives in the Corporate Assembly
OSE	Oslo Stock Exchange
tonne, mt	One metric tonne (1,000 kilograms or 2,205 pounds)
TWh	Terawatt hour (one billion kilowatt hours)
US GAAP	Generally accepted accounting principles in the United States
VAW	VAW Aluminium AG
VPS or VPS System	The Norwegian Central Securities Depository, Verdipapirsentralen
Workers	Person that performs work directly or indirectly for the company. It includes, but is not limited to, employees
WTO	World Trade Organization
Yara	Yara International ASA

Cautionary note in relation to certain forward-looking statements

Certain statements included within this annual report contain forward-looking information, including, without limitation, those relating to (a) forecasts, projections and estimates, (b) statements of management's plans, objectives and strategies for Hydro, such as planned expansions, investments 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, as well as (i) statements preceded by "expected", "scheduled", "targeted", "planned", "proposed", "intended" or similar statements.

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 aluminium business; changes in availability and cost of energy and raw materials; global supply and demand for aluminium and aluminium products; world economic growth, including rates of inflation and industrial production; changes in the relative value of currencies and the value of commodity contracts; trends in Hydro's key markets and competition; and legislative, regulatory and political factors.

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

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

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Infinite aluminium