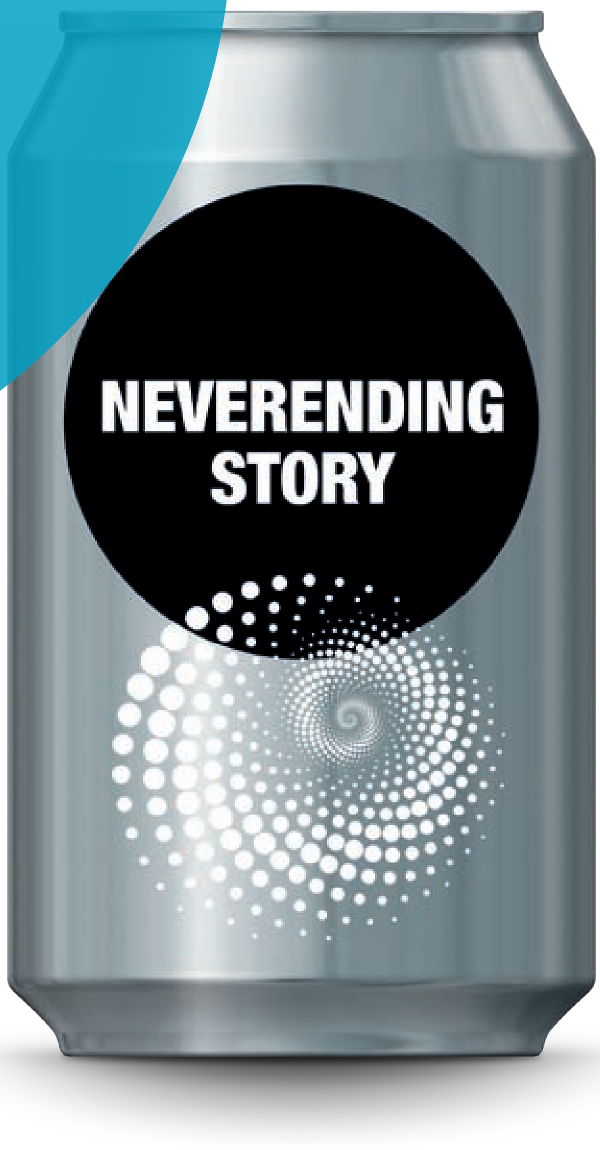
HYDRO

Financial statements and Board of Directors' Report 2016



Key figures

Amounts in NOK million unless other unit indicated	2016	2015	2014
Revenue	81 953	87 694	77 907
Underlying EBIT: (a)			
Bauxite & Alumina	1 227	2 421	(55)
Primary Metal	2 258	4 628	3 937
Metal Markets	510	379	634
Rolled Products	708	1 142	698
Energy	1 343	1 105	1 197
Other and eliminations	380	(19)	(717)
Total	6 425	9 656	5 692
Net Income	6 586	2 333	1 228
Underlying return on average capital employed (RoaCE), percent	5.1 %	9.2 %	5.2 %
Investments (b)	9 137	5 865	3 625
Total assets	130 793	122 544	126 273
Share price year-end, NOK	41.30	33.13	42.44
Dividend per share, NOK	1.25	1.00	1.00
Number of employees, year-end (c)	12 911	13 263	12 922
Recordable injuries, per million hours worked	2.6	3.0	3.2
Greenhouse gas emissions, million tonnes CO2e (d)	7.6	7.3	7.3

Highlights

WELL POSITIONED

Several years of significant improvements and continuous technological advancements have strengthened Hydro's ability to create value. Hydro made good progress on its "Better" improvement ambition targeting NOK 2.9 billion of annual improvements by 2019 vs 2015. For 2016, NOK 1.4 billion of annual improvements were delivered exceeding the 1.1 billion target. Better-than-expected Chinese primary demand, supported by stimulus measures, in combination with moderate production growth resulted in a global market deficit in 2016. LME prices were at weak levels at the start of the year on the back of low industry costs, but increased during the year supported by tighter market balances and rising energy and alumina prices.

CREATING VALUE BY BECOMING BETTER, BIGGER, GREENER

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. Hydro will continue to drive improvement, focusing on all aspects within the company's control, including health, safety, environment and compliance, operational excellence, technology, commercial expertise and customer satisfaction. Selective, profitable growth opportunities will be pursued including high-grading the products portfolio and maturing attractive growth projects when the time is right. Hydro aims to reduce its environmental footprint and enhance its social contribution through targeted initiatives within a range of areas.

(a)

Underlying EBIT
Underlying EBIT for 2016 decreased to NOK 6,425 million compared with NOK 9,656 million in 2015, primarily due to a decrease in realized alumina prices and all-in metal prices, partly compensated by positive currency effects, lower raw material costs and ongoing improvement efforts. In 2016, Bauxite & Alumina achieved record production at both Paragominas and Alunorte, Sapa's performance continued to improve, while Rolled Products delivered a weaker result.

(b)

Investments
During 2016, Hydro continued to focus on maintaining a solid financial position and capital discipline. In addition to sustaining investments such as the expansion and modernization of the red mud deposit area at Alunorte and new tailing dams at Paragominas, growth investments included teh karmøy technology pilot and a new production line in Grevenbroich for automotive body sheet.

(c)

Number of employees
The reduction in employees was mainly due to the divestment of Slim in Italy at year-end 2015 (and included in the 2015 employee figures).

(d)

Greenhouse gas emissions
Greenhouse gas (GHG) emissions from Hydro's current consolidated activities increased by 4 percent in 2016, mainly due to increased production of alumina and primary aluminium as well as production disturbances in Årdal following power outages.

HYDRO'S REPORTING 2016

In addition to this separate document, Hydro's Financial statements and Board of Directors' report is included as an integral part of the company's "Annual Report - 2016".

The 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 - 2016" is available in PDF-format on our website www.hydro.com/reporting2016 in English. The "Financial statements and Board of Directors' report - 2016" 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.

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Another 100 years? With lightness.

After years of improvement efforts motivated by the need to adapt to external challenges, we are now starting to take advantage of new opportunities. After years of talking about being part of the solution, we are now turning words into action.

In everyday operations Hydro is a producer of aluminium. In the broader picture, I see Hydro in the business of making the world lighter – by light-weighting people's daily lives and by easing the burden of climate change by saving greenhouse gas emissions and improving energy-efficiency.

Always looking ahead

More and more discover the inherent properties of aluminium. Through innovation and product development we bring new aluminium solutions into new applications. Due to its light weight, formability, durability and endless recyclability, the growth is strikingly broad-based, spanning sectors like transportation, packaging, building & construction as well as electrical applications.

While other base metals seem to have reached the point of saturation in many markets, aluminium still has a significant potential for increased use. In 2017 we're expecting demand for aluminium to grow by a healthy 3-5 percent.

Last year we invested in future-oriented projects that we expect to be successful seen from a strategic, financial and a climate point of view. In 2017 three important symbols of the new era will be in full operation:

- The Karmøy Technology Pilot in Norway, which will produce the world's most climate- and energy-efficient primary aluminium.
- The Automotive Line 3 in Grevenbroich, Germany, making Hydro the second-largest supplier of lightweight car parts in Europe.
- The UBC recycling line in Neuss, Germany, based on cutting-edge technology, which has already started bringing millions of used beverage cans back into the circular economy as new, first-rate aluminium products.

Aluminium cars – a driving force

Material substitution in automotive is the strongest driver for aluminium, as the most renowned automakers are substituting steel and other materials with aluminium – not only to reduce weight and save emissions, but also to improve safety and driving experience as well as taking advantage of improved design flexibility. A win-win solution for automakers, end-users, the climate – and for Hydro.

So, I couldn't imagine any better way to celebrate 100 years of aluminium production in the North Rhine-Westphalia area of Germany this spring than by inaugurating the €130 million Automotive Line 3, taking our body-in-white capacity from 50 ktpy to 200 ktpy.

More than a quarter of Hydro's aluminium production will now be applied by some of the most demanding automotive manufacturers in the world in their effort to light-weight the next-generation car fleet.

In Hydro we regard demanding customers as crucial for challenging us onwards for new and improved solutions and products. Our current strategy of high-grading and moving into advanced applications is taking us in the right direction.

Better, Bigger, Greener

Seizing new opportunities doesn't mean that we have put our improvement efforts behind us. It's in our company DNA to always improve and renew and do better tomorrow than we did yesterday – in safety, in operations, and financially.

I am pleased with how the improvement efforts are giving tangible results in safety. Our first duty is to make sure that our colleagues return home from work just as safe and sound as when they turn up. A year without fatalities and a TRI rate of 2.6 (work-related injuries per million work hours) make 2016 our best-ever, both for our own employees and contractors. We can never take safety for granted. We have to work for it and be aware every single day, aiming at zero fatalities and a TRI rate below 2 by 2020.

Improvements also materialize on the bottom-line. By delivering NOK 1.4 billion in improvements in 2016, we surpassed our NOK 1.1 billion target. It encourages me to see that our people even know how to do 'Better' better. It also allows us to offer a safe and reliable dividend to shareholders.

Record production at Paragominas and Alunorte in Brazil contributed significantly. For 2016 in total, the Paragominas bauxite mine produced 11.1 million tonnes of bauxite, well above its nameplate capacity, and the Alunorte refinery produced at nameplate capacity of 6.3 million tonnes of alumina. That's 'Bigger' and 'Better' rolled into one!

I would like to thank all of our Hydro colleagues, on all levels, in all business areas and in all the countries Hydro is engaged, who helped achieve great results in 2016. They have reason to be proud.

The future is about running responsible and sustainable businesses

I am happy, not only about the results we achieve, but also by how we achieve them. In fact, compliance, responsibility and environment are not add-ons to our business, they form an integral part of all business plans, transactions and operations – the way we conduct our business.

I am convinced that it is not only necessary and possible to integrate responsibility in business, it is also good for business. Responsible conduct is not a cost or a constraint. On the contrary, acting ethical and preventive is an investment, saving risk, cost, time and reputation. It opens doors to business opportunities. It gives competitive advantages. As consumers, enterprises, NGOs and authorities demand more transparency and sustainability, there is simply no alternative to responsible conduct for companies that have an ambition to stay and to thrive.

By being a 360 degree aluminium company, fully integrated along the entire 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.

As part of taking responsibility, and to contribute to sustainable development, Hydro has signed on to the UN Global Compact, 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.

We are on our way to make Hydro carbon neutral in a lifecycle perspective by 2020. We are sourcing most of our primary aluminium production with hydropower, and now even with wind power. The Karmøy Technology Pilot will set new standards for primary production. In Brazil we are now teaming up with Shell to bring natural gas to the state of Pará. Switching to natural gas in our alumina refinery there will benefit both emissions and financials, and make LNG available to local industry and transportation in our Brazilian home state.

Big vision made real

By being part of the solution to some of the mega trends of our time, light-weighting being one of them – supported by determined implementation of ever new steps under the Better, Bigger, Greener aspiration – we are ready to set out for another 100 years.

It's an inherent strength of our Hydro Way. We have the patience to take the long-term perspective, and the eagerness to use every opportunity, every day, to make things happen.

"After years of talking about being part of the solution, we are now turning words into action."

Svein Richard Brandtzæg
President & CEO

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 2016, 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 U.S.

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. Through the Sapa joint venture transaction we have transformed our extrusion operations and generated substantial synergies.

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

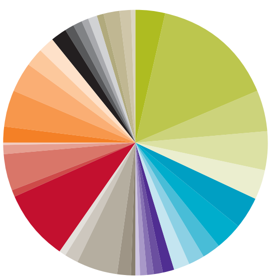
The Hydro Way is our approach to business, an approach that has existed within our company from the beginning and that has underpinned our success over the years. The Hydro Way defines our identity - our distinct set of characteristics - and constitutes a unique way of doing things that differentiates 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 13,000 employees involved in activities in more than 40 countries. The vast majority is employed in Brazil, Germany and Norway. 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. Good leadership, proper organizational structure and the right tools are all essential if we are to achieve this. This includes attracting - and retaining - the right employees.

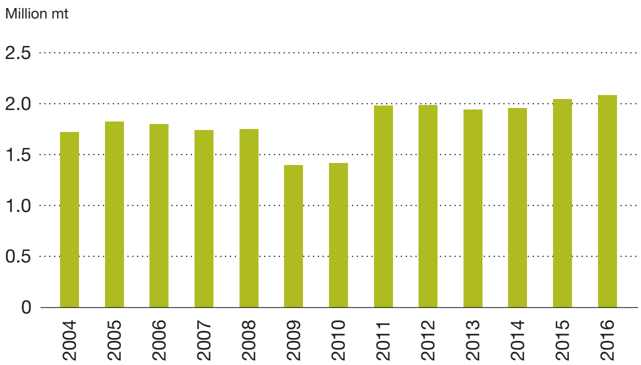
Geographical distribution of operating revenues

NOK million 81,953



Norway	3.6 %	USA	8.7 %
Germany	15.2 %	Canada	0.7 %
Spain	4.8 %	Brazil	4.5 %
Great Britain	4.7 %	Mexico	1.1 %
Poland	3.8 %	Other Americas	0.3 %
Italy	3.8 %	Qatar	2.1 %
France	3.4 %	Japan	4.5 %
The Netherlands	2.3 %	Singapore	3.5 %
Austria	2.0 %	South Korea	2.3 %
Denmark	1.8 %	China	2.0 %
Belgium	1.3 %	Saudi Arabia	2.0 %
Sweden	1.2 %	Hong Kong	1.1 %
Czech Republic	0.9 %	United Arab Emirates	1.0 %
Portugal	0.8 %	India	0.9 %
Hungary	0.8 %	Thailand	0.9 %
Slovakia	0.6 %	Taiwan	0.8 %
Other EU	1.7 %	Other Asia	2.2 %
Switzerland	4.9 %	Australia and New Zealand	1.1 %
Turkey	1.7 %	Africa	0.5 %
Other Europe	0.7 %		

Primary aluminium production



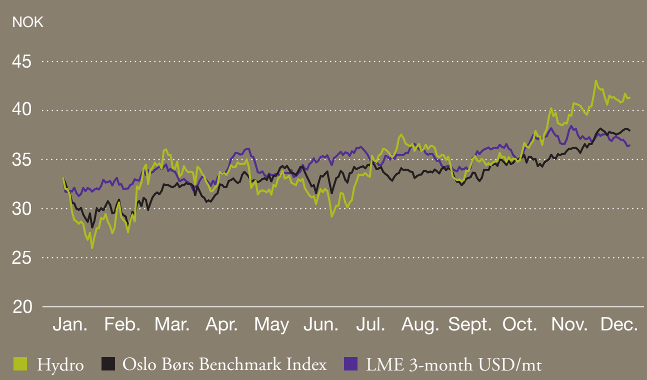
Board of Directors' report

QUICK OVERVIEW

In 2016, Hydro made significant progress towards all main aspects of the company's overall strategic direction Better, Bigger, Greener. Hydro's industry-leading improvement drive continued to deliver significant operational and commercial results. Hydro pursues a model of full value chain integration, and firmly believe 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. The company continued to be on track with its ambition to become carbon-neutral from a lifecycle perspective by 2020.

Hydro delivered on targeted improvements again in 2016. The company is ahead of schedule with its NOK 2.9 billion Better improvement ambition by 2019, achieving NOK 1.4 billion of annual improvements for 2016, 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. Primary Metal completed the USD 180 per mt joint venture improvement program at the end of 2016.

Share price development in 2016



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

Innovation and differentiation through integrated value chain

In 2016, Hydro made significant progress towards all main aspects of the company's overall strategic direction *Better, Bigger, Greener*. Hydro's industry-leading improvement drive continued to deliver significant operational and commercial results. Hydro pursues a model of full value chain integration, and firmly 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. The company continued to be on track with its ambition to become carbon-neutral from a lifecycle perspective by 2020.

No fatal accidents occurred in Hydro's operations, but several incidents with high risk potential occurred. The number of high-risk incidents and major accidents continued to fall in 2016, and Hydro's safety performance remains among the best in the industry. The company reduced its TRI rate[1)] from 3.0 in 2015 to 2.6 in 2016. The injury rate for contractors also declined, resulting in the same TRI rate as for own employees. This was the best recorded safety result ever and was better than the target of 2.8 for own employees and 3.0 for contractors for the year.

Hydro delivered on targeted improvements again in 2016. The company is ahead of schedule with its NOK 2.9 billion Better improvement ambition by 2019, achieving NOK 1.4 billion of annual improvements for 2016, 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. Primary Metal completed the USD 180 per mt joint venture improvement program at the end of 2016.

For Bauxite & Alumina, 2016 became a year of strong operational progress, with an all-time low implied alumina cost and record production levels above nameplate capacity for both the Paragominas bauxite mine and the Alunorte alumina refinery. During the year, Hydro and Brazilian mining company Vale ended negotiations on the possible acquisition of Vale's 40 percent interest in Brazilian bauxite producer Mineração Rio do Norte (MRN). The two companies entered into a Letter of Intent (LoI) regarding the possible transaction in October 2015, but have not been able to agree on commercial terms. Hydro will continue to directly own 5 percent of MRN, as well as to purchase bauxite from Vale under commercial agreements entered into in 2011. The put/call option for Vale's remaining shares in Paragominas has been exercised; the transaction was completed in the fourth quarter of 2016.

Hydro is utilizing technology and innovation to differentiate in the highly competitive environment of global aluminium. In February 2016, Hydro made the final build decision for the construction of the 75,000 mt technology pilot at Karmøy, which by year-end was around 70 percent physically complete. Production is expected to commence during the fourth quarter of 2017, verifying the world's most climate- and energy-efficient smelter technology with considerable spin-off effects for Hydro's existing smelter portfolio. Primary Metal is progressing to deliver on the ambition to increase production with 200,000 mt per year based on creep in existing production lines in our fully owned and joint venture plants within 2025. So far approximately 35,000 mt have been delivered.

Both Primary Metal and Rolled Products, as well as our extrusion joint venture Sapa, are pursuing a strategy of high-grading and shifting the product portfolio towards higher-margin segments. In Rolled Products, this has resulted in a special focus on the high-growth automotive market, and trial production has now started at the new Automotive Line 3 in Grevenbroich, Germany, that will serve Europe-based car makers with premium products. In the first quarter of 2016, Rolled Products signed a multi-year contract for deliveries to UK-based car maker Jaguar Land Rover.

Recycling is growing at an even faster rate than primary metal, as more scrap is becoming available on the market. Hydro is targeting the recycling area from several angles, such as turning remelters into recycling plants, optimizing scrap sourcing and processing, increasing our sales of recycling friendly alloys and developing closed loops in cooperation with our customers. Metal Markets upgraded its Clervaux remelter during 2016 to take more post-consumer scrap and lift production to above 100,000 mt. Rolled Products also completed construction of the new recycling line for used beverage cans this year, which is expected to reach full capacity during 2017 after experiencing some difficulties during the ramp-up phase.

Securing long-term competitive power sourcing has been of critical importance to sustain the viability of Hydro's smelter portfolio. In 2016, Hydro entered into a long-term power contract with Nordic Wind Power DA for the annual supply of energy totaling 1 TWh for Hydro's Norwegian smelters for a 15-year period beginning 2021, and 0.7 TWh for the period 2035-39, enabling competitive aluminium production in Norway. This was on top of 1.05 TWh sourced in the

1) Total recordable injuries per million hours worked

previous year. During the year, power contracts were also entered into that will fully supply our smelter operations in Germany up to 2025. In 2016, Norsk Hydro Energia Ltda was in its second year of operation continuing as a vehicle for power market operations in Brazil.

In 2016, an important regulatory change was implemented in Norway that allows for private ownership of waterfalls through companies with liability, often referred to as industrial ownership or ANS/DA, enabling further progress on Hydro's work to restructure ownership and protect the value of our power assets. This would enable Hydro to maintain access to physical power through a one-third ownership position in a company with liability that might otherwise revert to the Norwegian State.

Better-than-expected Chinese primary demand, supported by stimulus measures, in combination with moderate production growth resulted in a global market deficit in 2016. Moreover, the market deficits in the key consumer regions North America and Europe also grew larger. LME prices were at weak levels at the start of the year, but increased during the year supported by tighter market balances and rising energy and alumina prices. On average the USD strengthened against the Norwegian kroner and Brazilian real, benefiting the company's competitive position.

Creating value by becoming Better, Bigger and Greener

Hydro is committed to a proactive, strategic business approach aimed at strengthening the company's ability to add value. 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 continuing to drive improvements focusing on all aspects within the company's control. These include health, safety, environment, corporate social responsibility and compliance, operational excellence, commercial expertise, customer satisfaction as well as product and process innovation, continuous technology advancements and the NOK 2.9 billion (2016-2019) improvement ambition. Tight capital discipline and

Hydro's mid-term strategic goals

	Ambitions	Target	Timeframe	2016 progress	Status
Better	Improve safety performance, strive for injury free environment	TRI<2	2020	No fatal accidents. TRI 2.6	Green
	Realize ongoing improvement efforts *Better*	BNOK 2.9	2019	1.4 BNOK	Green
	Secure new competitive sourcing contracts in Norway post 2020	4-6 TWh	2020	1 TWh	Green
	Lift bauxite production at Paragominas	11 mill mt/year	2018	11.1 mill mt/yr	Green
	Lift alumina production at Alunorte	6.6 mill mt/year	2018	6.3 mill mt/yr	Green
	Shift alumina sales to PAX-based pricing	>85% PAX [1)]	2020	50% PAX [3)]	Green
	Extend technology lead with Karmøy technology pilot	Start production	Q4 2017	~70 % complete	Green
Bigger	Realize technology-driven smelter capacity creep	200,000 mt/year	2025	35,000 mt	Green
	Lift equity bauxite production	19 mill mt/year [2)]	Long-term	Negotiations halted	Red
	Increase nominal automotive Body-in-White capacity	200,000 mt/year	2017	Trial production started	Green
	Complete ramp-up of UBC recycling line	Ramp-up completed	2017	Started, delayed ramp-up	Amber
Greener	Become carbon-neutral from a life-cycle perspective	Zero	2020	On track	Green
	Increase recycling of post-consumer scrap [4)]	>250,000 mt/year	2020	138,000 mt	Amber
	Deliver on reforestation ambition [5)]	1:1	2017	180 ha rehabilitated	Red

1) Based on sourcing volume of app. 2.3 million mt per annum
2) Provided the acquisition of the 40 percent stake in MRN from Vale
3) Based on sourcing volume of ~2.5 million mt for 2016
4) Includes Hydro's share of recycling in Alunorf
5) We rehabilitated in total 180 hectares (ha) in 2016, while 181 ha were made available for rehabilitation. The communicated target for 2016 was 325 ha. We will review our rehabilitation definitions and evaluate to define a new target that will more efficiently address our main challenges going forward. The 2020 target of closing the current rehabilitation gap remains unchanged.

Green light: Ambition on track and on target; *Amber light*: Ambition behind plan, but on target; *Red light:* Ambition might not meet the target competitive shareholder return will remain top priorities together with maintaining the company's robust financial position.

To become Bigger, selective growth opportunities will be evaluated to improve Hydro's relative industry position, including investments in high-grading the products portfolio, lifting alumina and primary production through debottlenecking and creep as well as strengthening recycling capabilities. Hydro is also maturing growth projects for the future, mainly depending on developments in the balance between industry supply and market demand as well as competitive power supply.

Hydro believes that sustainable business practices will make the company Greener and improve the company's ability to create shareholder value while making a positive difference wherever it operates. Hydro aims to reduce its environmental footprint and to enhance its social contribution through targeted initiatives within a range of areas, including biodiversity, recycling and water management, stakeholder engagement, community investments and promoting corporate social responsibility in its supply chain.

Operating performance

Hydro's underlying EBIT decreased to NOK 6,425 million compared with NOK 9,656 million in 2015 primarily due to a decrease in realized alumina prices and all-in metal prices, partly compensated by positive currency effects, lower raw material costs and ongoing improvement efforts. In 2016, Bauxite & Alumina achieved record production at both Paragominas and Alunorte, Sapa performance continued to improve, while Rolled Products delivered a weaker result driven by lower margins and higher costs.

Sapa Profiles Inc. (SPI), a Portland, Oregon-based subsidiary of Sapa AS (owned 50 percent by Hydro) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding 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 on Sapa, 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.

In response to these pending investigations, Sapa and Hydro have performed audits of their respective quality assurance processes at all relevant operations. The audits were finalized in 2016, and necessary actions taken.

Priorities for 2017

Going forward, Hydro intends to continue to lift the performance and profitability of its operations while securing safe, sustainable business practices. Priorities in 2017 include:

- Continuing to strengthen performance within health, safety, security and environment (HSE), compliance and corporate social responsibility (CSR)
- Enhancing workforce performance, engagement and diversity
- Strengthening relative industry position through improvement drive and leading R&D
- Systematic dialogue with stakeholders on framework conditions
- Continue shifting portfolio towards high-margin segments for leading customers
- Pursuing recycling opportunities to improve earnings and environmental impact
- Securing long-term access to raw materials, including energy sourcing efforts
- Maintaining capital discipline, reliable dividend level and strong financial position
- Digitalization and cyber risk protection

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, and increasing the engagement of operators. Two additional sub-strategies, on health and environment, are under development and will be implemented in 2017 to further strengthen Hydro's performance. HSE is integrated in Hydro's existing business systems as well as in new projects and process modifications.

Implementation of Hydro's updated people strategy will continue in 2017 with an emphasis on strategic workforce planning and competence practice. Hydro received excellent results from its employee engagement tool, the Hydro Monitor. Maintaining high employee engagement will be a key priority going forward.

Hydro has performed a feasibility study on a project for improved waste handling in Barcarena in Brazil. The project aims to improve the working conditions for those currently involved in waste collection.

Hydro's board-sanctioned Code of Conduct will be updated in 2017, and the revised Hydro Integrity Program will be finalized and rolled out in the organization. An external review of Hydro's compliance system will be performed in 2017.

Bauxite & Alumina are on track to reach the NOK 1 billion "Better Bauxite & Alumina" improvement ambition by 2019. Hydro intends to continue increasing its share of alumina sales volumes at index pricing as old legacy LME-linked contracts gradually expire. Hydro has 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 its current fuel oil consumption at the Alunorte alumina refinery in Brazil with more climate- and cost-efficient natural gas.

Hydro is engaged in a systematic dialogue with local, state and federal politicians, industry associations and non-governmental organizations regarding the regulatory challenges facing its worldwide operations. In Brazil, the focus of the dialogue is on Hydro's contribution to a sustainable aluminium value chain in the state of Pará and underlines the need for competitive and predictable framework conditions for Hydro's operations. Hydro is committed to support verticalization through the aluminium value chain, contribute to the development in the region and act as an enabler for sustainable growth in the state of Pará.

Hydro is committed to sustain realized improvements and to identify further potential as part of its "Better Primary Metal" ambition of NOK 1 billion by 2019. In addition to further improving productivity and reducing costs, Primary Metal aims to lift production capacity at existing plants through the 200,000 mt 2025 creep ambition, based on known technologies and enablers, as well as technology spin-offs from the Karmøy technology pilot. The main drivers for these volumes are larger anodes, new cathode technology, improved process control systems, modeling tools and our world-class business system, AMBS. The 75,000 mt technology pilot at Karmøy, utilizing Hydro's next-generation HAL4e technology, is expected to contribute to reduced energy costs and lower greenhouse gas emissions. Experience gained from building and operating the plant will also enable further improvements in the productivity of the current smelter portfolio.

Optimizing margins by focusing on product differentiation will continue to be high on the agenda for Hydro's Metal Markets operations. High focus on and investment in R&D and finalization of the new casting technology at the company's sheet ingot casthouses, will enable Hydro to target more advanced market segments in particular customers in the automotive segment.

Hydro intends to improve margins through high-grading its product portfolio and differentiation through innovation, quality and reliability. Based on strong demand in the automotive Body-in-White market segment, Rolled Products has invested in a new production line to lift its nominal capacity for aluminium car body sheet to 200,000 mt per year. Construction of the new production line was completed in 2016 with ramp-up expected to be complete during 2017. The "Better Rolled Products" improvement ambition is targeting NOK 900 million by 2019 through improved product mix, reduced metal cost due to increased recycling and further operational improvements.

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 to pursue commercial opportunities and reduce 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. The most important project currently includes the ramp-up of a recently completed recycling line for used beverage cans at Hydro's smelter in Neuss, Germany.

Capturing the full value potential from Hydro's Norwegian hydropower assets and using energy market competence to secure competitive energy sourcing for the company's activities both in Norway and abroad will continue to be high on the agenda for 2017. Operational excellence in Hydro's hydropower portfolio will continue to be a priority to secure cost-effective, safe and reliable production.

Hydro aims to provide its shareholders with competitive returns compared to alternative investments in peer companies by lifting the 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.

Digital systems and capabilities are growing in importance and impact. Relevant examples for Hydro include smart robots, predictive maintenance, finance automation and enhanced collaboration for employees. Further work focused on improving cyber security has shown that this is an increasing risk. Currently, all Business Areas and corporate functions are exploring the potential benefits of digitalization. In 2017, these benefits will be organized into a company-wide digital strategy.

Strong position in an industry with attractive potential

Growth in aluminium demand remains firm, despite volatile economic conditions, driven both by a general increase in consumption and the increasing substitution of aluminium for 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 high quality bauxite and alumina, captive hydropower, a competitive smelter portfolio, European leadership in rolling operations, strong position in recycling and a world leading extrusion position through its investment in the Sapa joint venture. Following years of depressed earnings and unsatisfactory returns for the industry as a whole, continual improvement and restructuring efforts 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, a possible expansion of primary production in Norway, and the possibility to expand the part-owned Alouette smelter in Canada. 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. 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 competitive power supply.

Climate, HSE, 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 deliver the industry's most ambitious climate target of becoming carbon-neutral from a life-cycle perspective by 2020. The company's safety performance is among the best in the industry, and Hydro is aiming for further reductions to a TRI below 2 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.

Investor information

Hydro's share price closed at NOK 41.3 at the end of 2016. The return ex. dividend for 2016 was positive with NOK 8.2, or 24.7 percent.

For 2016, Hydro's Board of Directors proposes to pay a dividend of NOK 1.25 per share, demonstrating the company's commitment to provide a predictable and competitive cash return to shareholders, and taking into account the volatility in the aluminium industry. The proposed payment represents a 40 percent pay-out ratio of reported net income for the year reflecting Hydro's operational performance for 2016 and strong financial position.

Hydro's Board of Directors has revised the company's dividend policy to reflect the ambition to pay a stable or increasing dividend. Hydro's policy is in the long term to pay out, on average, 40 percent of reported net income as dividend over the business cycle.

Financial results

Underlying operating results

Key financial information

NOK million, except per share data	**Year 2016**	Year 2015
Revenue	**81 953**	87 694
Earnings before financial items and tax (EBIT)	**7 011**	8 258
Items excluded from underlying EBIT[1)]	**(586)**	1 398
Underlying EBIT[1)]	**6 425**	9 656
Underlying EBIT :		
Bauxite & Alumina	**1 227**	2 421
Primary Metal	**2 258**	4 628
Metal Markets	**510**	379
Rolled Products	**708**	1 142
Energy	**1 343**	1 105
Other and eliminations[2)]	**380**	(19)
Underlying EBIT[1)]	**6 425**	9 656
Earnings before financial items, tax, depreciation and amortization (EBITDA)[3)]	**12 485**	13 282
Underlying EBITDA[1)]	**11 474**	14 680
Net income (loss)	**6 586**	2 333
Underlying net income (loss)[1)]	**3 875**	6 709
Earnings per share	**3.13**	0.99
Underlying earnings per share[1)]	**1.83**	2.98
Financial data:		
Investments[1)]	**9 137**	5 865
Adjusted net cash (debt)[1)]	**(5 598)**	(8 173)
Underlying Return on average Capital Employed (RoaCE)[1)]	**5.1%**	9.2%

Key Operational information	**Year 2016**	Year 2015
Bauxite production (kmt)[4)]	**11 132**	10 060
Alumina production (kmt)	**6 341**	5 962
Primary aluminium production (kmt)	**2 085**	2 046
Realized aluminium price LME (USD/mt)	**1 574**	1 737
Realized aluminium price LME (NOK/mt)	**13 193**	13 813
Realized USD/NOK exchange rate	**8.38**	7.95
Rolled Products sales volumes to external market (kmt)	**911**	948
Sapa sales volumes (kmt)[5)]	**682**	682
Power production (GWh)	**11 332**	10 894

1) Alternative performance measures (APMs) are described in the corresponding section in the back of the Board of Director's report.
2) Other and eliminations includes Hydro's 50 percent share of underlying net income from Sapa.
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.

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.

Underlying EBIT for Bauxite & Alumina declined compared to 2015, influenced by lower realized alumina prices, partly offset by positive currency effects from a weaker Brazilian Real and lower raw material prices. Both the bauxite mine in Paragominas and alumina refinery at Alunorte reached record yearly production of 11.1 million mt and 6.3 million mt respectively for 2016. Bauxite & Alumina well exceeded their “Better Bauxite & Alumina" improvement ambition of NOK 500 million in improvements for 2016.

Underlying EBIT for Primary Metal declined compared to 2015, due to lower realized all-in metal prices, partly offset by lower raw material costs and positive currency effects. The USD 180 per mt improvement program [1] for the global joint venture smelters was completed by the end of 2016. Primary Metal made progress on the "Better Primary Metal" improvement program in 2016; however, mainly due to a power outage in Årdal, Primary Metal fell slightly short of the target of NOK 400 million for 2016. The delay is not expected to impact the 2019 target of NOK 1 billion.

Underlying EBIT for Metal Markets for 2016 improved substantially compared to 2015, mainly due to substantial losses from sourcing and trading activities in the first half of 2015 as a result of a decline in standard ingot premiums. This was partly offset by lower results from remelters mainly due to lower contribution margins in Europe. Metal product sales excluding ingot trading were somewhat higher compared with 2015 mainly due to higher remelt production at our plants.

Rolled Products underlying EBIT for 2016 declined compared to 2015. Lower realized margins and higher costs were partly offset by increased sales volumes, when adjusting for the Slim rolling mill divestment. The lower all-in metal price negatively affected the Neuss smelter result. Rolled Products made progress on the "Better Rolled Products" improvement program in 2016, but fell short of the target of NOK 200 million for 2016, mainly related to a delay in the ramp up of the UBC line. The delay is not expected to impact the 2019 target of NOK 900 million.

Underlying EBIT for Energy increased compared to 2015 mainly due to higher power prices and net spot sales. The increase in net spot sales is due to production increases and changes in the contract portfolio. Energy produced 11.3 TWh of renewable hydroelectric power, which is above the normal annual production of 10 TWh.

Underlying EBIT for Sapa improved compared with 2015 driven by value-added strategy and improved cost position for Extrusion Europe and successful restructuring efforts in Building Systems and Precision Tubing. Results for Extrusion North America were stable despite operational challenges and a softening of certain markets.

Reported results

For the full year 2016, 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.

In the previous year, reported earnings before financial items and tax amounted to NOK 8,258 million including net unrealized derivative gains and negative metal effects of NOK 454 million in total. Reported earnings also included charges of NOK 285 million relating to the termination of the Vækerø Park lease contract and net losses on divestments of NOK 365 million, including losses of NOK 434 million related to the sale of the Slim rolling mill and gains of NOK 69 million in total related to sale of other assets. In addition, reported earnings included a net charge of NOK 331 million for Sapa (Hydro's share net of tax) relating to unrealized derivative losses, rationalization charges and net foreign exchange losses, together with a compensation of NOK 37 million relating to insurance proceeds in Qatalum.

1) Amounts relating to annual improvements achieved by the end of 2016 for the USD 180 per mt joint venture program are based on a comparison to cost and revenue levels in 2011.

In 2016 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.

In the previous year net income amounted to NOK 2,333 million including a net foreign exchange loss of NOK 4,397 million. The net foreign exchange loss in 2015 was mainly comprised of currency losses on US dollar debt in Brazil and embedded derivatives in power contracts denominated in Euro. The net foreign exchange loss also included losses on US dollar debt in Norway.

Income taxes amounted to a charge of NOK 2,551 million in 2016, compared with a charge of NOK 1,092 million in 2015. The tax rate of 28 percent reflects the relatively high share of reported income before tax subject to power surtax, offset by a reduced tax expense of approximately NOK 600 million related to a favorable decision from the Norwegian Tax Appeal Board in a tax dispute, in April 2016.

Liquidity, financial position, investments

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

In 2016, net cash provided by operating activities of NOK 10.0 billion was more than sufficient to cover net cash used in investing activities, excluding the net of purchases and proceeds from sales of short-term investments, amounting to NOK 6.0 billion, and dividend payments of NOK 2.4 billion.

Hydro's Net cash (debt) changed from NOK 5.1 billion at the end of 2015 to NOK 6.0 billion at the end of 2016. Hydro's Adjusted net cash (debt) to Equity ratio was 14 percent, well below its targeted maximum ratio of 55 percent. Our Funds from operations/Adjusted net cash (debt) ratio was 95 percent, well above the targeted minimum of 40 percent over the business cycle.

Norsk Hydro ASA has a USD 1.7 billion revolving multi-currency credit facility with a syndicate of international banks, maturing in November 2020. The facility was fully undrawn as of December 31, 2016. The facility will continue to serve primarily as a back-up for unforeseen funding requirements. See note 33 to the consolidated financial statements for additional information.

Market developments and outlook

Upstream market developments

Three month LME prices started the year around USD 1,470 per mt and reached a level of USD 1,653 per mt in the second quarter before falling to USD 1,569 per mt in September. Thereafter prices increased again. At the end of the year prices were around USD 1,700 per mt. Prices averaged around USD 1,550 per mt in the first half of 2016 and increased to an average of roughly USD 1,670 per mt in the second half of the year.

Standard ingot and product premiums started the year closer to more historical levels, compared to the extraordinary high levels in 2014 and 2015, and continued to fall during 2016. Average North American standard ingot premiums decreased to around USD 170 per mt or around 40 percent lower than average premiums in 2015. Corresponding standard ingot premiums in Europe declined to about USD 130 per mt or 44 percent lower than in 2015. Premium developments have been influenced by exports of semi-finished products from China and increased metal availability from warehouses partly due to a reduced contango during the year, as well as changes implemented to the LME warehouse rules, affecting the outflow of metal.

Global primary aluminium consumption increased by 5.4 percent to 59.6 million mt in 2016. Global supply increased by about 3.2 percent resulting in a deficit of around 0.7 million mt. For 2017, global primary aluminium demand is expected to increase by 3-5 percent while supply is expected to increase by about 4-6 percent, still resulting in a largely balanced global market in 2017.

Demand for primary aluminium outside China increased by around 3.2 percent, while corresponding production increased by 2.4 percent. Overall, demand outside China exceeded production by close to 1.2 million mt in 2016. Demand for primary aluminium outside China is expected to grow around 2-4 percent 2017. Corresponding production is expected to be up 2-3 percent, resulting in a deficit in the world outside China also in 2017.

Demand for primary metal in China increased around 7.4 percent to 31.5 million mt in 2016. Production increased by around 3.8 percent, resulting in a surplus of around 0.5 million mt for the year. Chinese primary production growth is expected to increase in 2017 to around 7-9 percent influenced by announced restarts and new capacity entering the start up phase during 2016 and into 2017. The Chinese authorities have on several occasions expressed concern regarding further aluminium capacity build-up. More recently, the Chinese government has announced plans to curtail certain amounts of aluminium capacity during the winter months due to pollution issues. If implemented, this could subdue surplus capacity going forward.

LME stocks fell throughout the year from 2.9 million mt at the end of 2015 to 2.2 million mt at the end of 2016. Most of the metal in warehouses continues to be owned by financial investors. Also total inventories, including unreported inventories are estimated to have decreased, by about 0.7 million mt throughout 2016, amounting to around 12.3 million mt at the end of 2016.

Demand for foundry alloys and sheet ingot in Europe has been solid also during 2016 and increased compared to the previous year. The demand for wire rod in the European market was weaker than expected. Consumption of extrusion ingot in 2016 was slightly higher than the year before. Consumption of extrusion ingot has been strong in the US also in 2016, while the demand for primary foundry alloys also increased compared to 2015. In Asia (excluding China), the market for extrusion ingot and primary foundry alloys continued to show moderate growth.

Platts alumina spot prices started the year at USD 199 per mt ranging from USD 197 - 351 per mt during 2016 and ending the year at USD 349 per mt. Prices averaged USD 254 per mt for the year, a decrease of 16 percent compared to 2015. Average prices as a percentage of LME varied, averaging 15.7 percent for the year compared with 17.8 percent in 2015. Spot prices at the end 2016 represented 20.6 percent of LME.

Chinese alumina imports amounted to 3.0 million mt in 2016, a decrease of 35 percent compared with 2015. Bauxite imports into China decreased to 52.0 million mt, or 7 percent lower compared to 2015. The decrease was driven by significantly lower imports from Malaysia which dropped to 7.7 million mt in 2016 from 24.2 million mt in 2015 because of a bauxite mining moratorium imposed in January and maintained the whole year. Chinese imports from Guinea soared to 11.9 million mt from 0.3 million mt in 2015 as a new mine came into production. Australia was the largest exporter to China with 21.2 million mt, 9 percent higher compared to 2015.

Downstream market developments

The European market for flat rolled products increased by 2.7 percent in 2016. The automotive segment continued to be the dominant market driver due to the growing substitution of steel by aluminium together with an increase in European car production of 3.5 percent in 2016.

Demand for general extruded products in North America grew 2.1 percent over 2015. European extrusion markets grew 1.5 percent over 2015. The increase was driven mainly by stronger automotive and transportation demand and a somewhat improved building and construction market.

Energy market developments

In 2016, Nordic electricity prices increased compared to the previous year. Developments were influenced by a somewhat drier than normal spring and autumn which led to a deteriorating hydrological balance in the Nordic region. From November however, the hydrological balance improved and spot prices declined. Nordic consumption increased by 9.1 TWh to 386.8 TWh in 2016 while total power production decreased by 1.5 TWh to 391.9 TWh.

The economic downturn in Brazil has had a negative influence on demand for power throughout the country for the second consecutive year. This, combined with other hydrological factors has resulted in a balanced power market over the year.

Risk review

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 our business are continuously identified, analyzed, addressed and monitored. Risk management is an integral part of Hydro's 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 credit worthiness. 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, financial condition and results of operations from time to time 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 illustration purposes. The examples are not meant to be exhaustive. There may also 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's operating results and financial position

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 have a significant negative financial effect for Hydro.

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 and in addition to national tax regimes such as Corporate income tax. There is a risk that new taxes are introduced, or the current tax levels will be increased, in the future.

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, leading to mounting pressure to increase tax revenues.

ICMS is a value added tax collected by Brazilian states on circulation of goods and on services such as transportation and communications. ICMS varies from 7 to 25 percent of the gross value of such goods and services, including ICMS. 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. Furthermore, Brazil has a general ICMS exemption on exports. In 2015, Hydro reached an agreement with the state of Pará, granting a renewed ICMS deferral regime for Hydro Paragominas, Hydro Alunorte and Albras for a 15 year period. With this regulation, the deferred ICMS tax will not be due on the goods that are destined for export. The agreement is subject to several conditions which Hydro must comply with on an ongoing basis. A discontinuation of the ICMS deferral would 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.

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. Samarco[1)]) 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.

Qatalum, a joint venture 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 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, 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

1) The Samarco mine dam failure in Brazil on November 5, 2015.

introduced, or are likely to introduce in the near future, legislation with the objective of reducing greenhouse gas emissions. Due to a new climate accord reached at the Paris climate conference in December 2015, there is a general belief that the political framework for regulating emissions of greenhouse gases will accelerate together with a focus on technology improvements leading to lower emissions. A new directive on EU/ETS is now being discussed in the EU. This 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

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.

Global aluminium oversupply, in addition to high global stock levels, have had a dampening effect on LME prices in recent years. Following improvements in 2014, market conditions deteriorated throughout 2015 and into 2016, impacted by oversupply in China leading to increased exports of primary metal in the form of semi-fabricated products (see also risk factor below on competition from China). This development, together with increased metal availability from warehouses and an overall downward shift of the industry cost curve, has resulted in a decline in all-in metal prices. Despite the improved market performance late 2016 and into 2017, global economic uncertainty continues, potentially affecting demand in key downstream markets. There are regional differences, with Europe in particular experiencing modest growth.

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 agenda, following events such as Brexit and the US presidential election, as well as the disputes regarding market economy status (MES) for China under the WTO agreement.

The majority of Hydro's upstream capacity is located in countries with typical "commodity currencies" such as Norway, Brazil, Canada and Australia where strong commodity pricing is mirrored in strong currencies. There is a fairly strong historic correlation supporting this relationship, however with a volatility around the trend. From 2015 our major cost currencies weakened substantially, having significant positive impact on our cost level and competitive position. However, these currencies have periodically been volatile. 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. These efforts help us to partly offset the effects of low market prices and raw material cost increases. In order to secure financial liquidity, we concentrate on maintaining a strong balance sheet, 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.

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.

Chinese alumina refineries and, consequently, aluminium smelters are dependent on imports of bauxite. Bauxite has traditionally been sourced from the Pacific region, with Malaysia as a major supplier in 2015. In early 2016, Malaysia imposed a bauxite mining moratorium, significantly restricting exports. Throughout 2016, increasing bauxite volumes have become available from Guinea to supply Chinese demand. 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. During 2015 and 2016, overcapacity in China, led to a continued rise in exports of primary aluminium in the form of semi-fabricated products. This affected all-in metal prices outside China which declined significantly. Exports from China have varied considerably, driven, amongst other factors, by periodic arbitrage opportunities between Chinese and international metal prices. However, trend-wise, exports have increased over the last years, but remained at 10-12 percentage of Chinese semis production. Although Chinese central authorities have voiced their concerns regarding the market surplus, and 2015-2016 demonstrated that Chinese players are willing and able to reduce loss making production, measures may be counteracted by local authorities, not implemented or may prove inadequate. 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.

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.

Being at the forefront of technological development is important for Hydro to remain competitive. Hydro has decided to build the Karmøy Technology Pilot to operationalize "next generation" cell and smelter technology developed together with key suppliers. We may fail to execute the project on time or on budget. We may also fail to achieve the expected technical enhancements and benefits for the existing smelter portfolio resulting from the new technology.

In 2014, Hydro decided to build a beverage can recycling facility (UBC line) at the Rheinwerk site in Germany. The UBC line will expand Hydro's recycling capabilities and enhance sourcing of material for the Rolled Products system. The project has experienced delays in ramp up and has not yet been able to reach targeted capacity. Some further modifications and investments are expected in 2017 to enable ramp up to rated capacity.

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 2016, around half of our smelter capacity was owned through interests in joint ventures and partly-owned subsidiaries, and our extrusion operations are owned through the 50/50 joint venture, Sapa. 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.

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 and 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 could be negatively affected by investigations, legal proceedings, material CSR incidents or major non-compliance with internal or external 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 and, in rare instances, 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. To improve social conditions in Barcarena, Hydro is working on several projects that aim to have positive impact on the social development of the municipality.

Sapa Profiles Inc. (SPI), a Portland, Oregon-based subsidiary of Sapa AS (owned 50 percent by Hydro) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding 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 on Sapa, 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.

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, anti-corruption 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 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 build or maintain a high performance culture throughout the organization 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.

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 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 strong credit worthiness. 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. In addition, we have close follow-up of liquidity reserves and of the debt installment profile in order to secure our financial position.

Hydro's liquidity position at the end of 2016 is considered to be solid. In addition we have an undrawn credit facility of USD 1.7 billion which expires in 2020. Hydro continues to focus on cash flow and credit risk throughout the organization. We take a proactive approach toward customers to reduce credit risk and also monitor the financial performance of key suppliers in order to reduce the risk of default on operations and key projects.

Prices and currency

Hydro's operating results are primarily affected by price developments of our main products: aluminium, alumina, bauxite and power, and of raw materials including commodities such as fuel oil, petroleum coke and coal. In addition, Hydro has a substantial portion of its primary metal capacity based in Norway and its accounting and reporting currency is the Norwegian krone. Primary aluminium prices, alumina and certain product premiums as well as a major part of the raw materials for producing aluminium are denominated in US dollars. Roughly half of Hydro's capital employed is located in Brazil. Much of Hydro's downstream business is based in Europe and a large portion of the production is sold in Euro while export sales to other regions are typically denominated in US dollars. As a result of these exposures, the relative value of the Norwegian krone, US dollar, Brazilian Real and Euro are of high importance to Hydro's operating results.

Commodity price volatility and currency fluctuations in general have increased significantly in recent years and can have a substantial impact on our operating costs directly and can also have a significant effect on our reported operating results due to realized and unrealized gains and losses on derivative instruments. Underlying results for our trading and hedging operations are also subject to substantial variations in periods of significant fluctuations of spot and forward prices for aluminium.

Our main risk management strategy for upstream operations is to accept exposure to price movements, while at the same time focusing on reducing the average cost position of our 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 US dollar exposure, Hydro's general policy is to raise funding in US dollars. To reduce the effects of fluctuations in the US dollar and other exchange rates, Hydro may use foreign currency swaps and forward currency contracts. No such contracts are currently in place.

An indication of the sensitivities regarding aluminium prices and foreign currency fluctuations for 2016 is provided in the table below. The table illustrates the sensitivity of earnings, before and after 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.

In addition to the above sensitivities, the revaluation of derivative instruments and contracts classified as derivatives may influence reported earnings. For accounting purposes, derivative financial and commodity instruments are recognized at fair value, with changes in fair value impacting earnings unless specific hedge criteria are met. This may result in volatility in earnings, since the associated gain or loss on the related physical transactions may be reported in earnings in different periods. Please see note 12 and 14 to the Consolidated Financial Statements for a detailed description of Hydro's commercial and financial risk exposures and hedging activities related to such exposures.

Commodity price sensitivity +10%

NOK Million	UEBIT
Hydro Group	
Aluminium	3 000

Currency sensitivities +10%

NOK Million	USD	BRL	EUR
Sustainable effect			
EBIT	2 840	(1 080)	(240)
One-off reevaluation effect			
Financial items	(250)	440	(2 040)

Annual sensitivities based on normal annual business volumes. LME USD 1 650 per mt, Oil USD 360 per mt, petroleum coke USD 240 per mt, casutic soda USD 380 per mt, coal USD 85 per mt, USD/NOK 8.30, BRL/NOK 2.50, EUR/NOK 9.00

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

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

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

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 and competition law (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." Information on the company's shareholder policy is in the section "Shareholder information."

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 goes 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 and Bonn in Germany (Rolled Products). A new research department for Bauxite & Alumina has been established and is under further development at Alunorte in Barcarena, Brazil. The 50/50 joint venture Sapa has its own research centers.

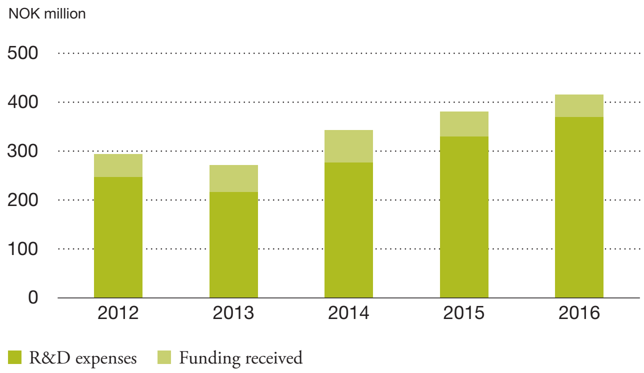
Our R&D technology efforts are concentrated on:

- Making products that promote the use of aluminium and sustainable development
- Developing the world's best electrolysis technology - the core of the aluminium company
- Using R&D and technology to ensure optimal operations in existing assets, including cost and HSE
- Developing recycling technology

Hydro's Technology Board consists of the members of Hydro's Corporate Management Board and meets every quarter to understand and discuss innovations across the business areas including their value to the company. Innovations also include the multitude of changes that are done through our continuous improvement work at all levels in the organization. All business areas are responsible for their own technology development and execution of their respective technology strategies. A corporate technology office, reporting directly to Hydro's President and CEO, shall ensure a holistic and long-term approach to Hydro's technology strategy and agenda. The technology office 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

R&D expenses



Received funding in 2016 accumulated to NOK 46 million. In addition comes NOK 553 million related to Enova's support to the Karmøy Technology Pilot.

operational efficiency. In downstream operations, new products and applications are of utmost importance, and largely developed in cooperation with our customers.

Our aluminium plants in Sunndal, Norway, and Qatalum, 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 next-generation technology, HAL4e, has been tested in a limited number of full-scale production cells delivering an energy consumption of 12.4 kWh/kg. A 75,000-metric-ton technology pilot with the aim of full-scale industrial testing of this proprietary technology is under construction at Karmøy, Norway. Of the total cost of NOK 4.3 billion, NOK 1.6 billion is contributed by Enova, a Norwegian public enterprise which supports new energy and climate-related technology.

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 world-class. In recent years we have emphasized utilizing this competence in operational improvements.

Society

As a global aluminium company with mining interests and about 11,000 active suppliers, Hydro is at risk of being exposed to corruption and human rights violations.

We require adherence with laws and regulations as well as internal directives. This includes identifying and mitigating corruption risks and human rights violations. Our compliance system is based on 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 on corruption
- Ongoing human rights due diligence, including joint ventures and suppliers
- Continuous stakeholder engagement linked to existing operations and new projects

Hydro maintains a board-sanctioned code of conduct that is regularly updated. The code of conduct requires adherence with external laws and regulations as well as internal steering documents and is systematically implemented and followed up through our compliance system. All new employees are required to confirm that they have received, read and understood Hydro's Code of Conduct.

Compliance is a line responsibility in Hydro, supported by corporate staffs including Legal, HSE and CSR. Compliance officers coordinate processes and activities throughout the organization. The Chief Compliance Officer reports to the board of directors through the board audit committee at his own discretion and meets with the board of directors minimum twice per year.

Compliance is integrated with our business planning and follow-up process including relevant key performance indicators. Corporate responsibility issues are systematically addressed in activities relating to business development, investment programs and project execution. Compliance 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.

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, the 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. All employees and onsite 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 2016, 173 reports were filed through the AlertLine compared to 83 in 2015. All were investigated and five employees 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.

In response to pending investigation in Sapa Portland Inc, Sapa and Hydro have performed audits of their respective quality assurance processes at all relevant operations. The audits were finalized in 2016, and necessary actions taken. For more information, please see the section "Key developments and strategic direction" in this report.

We recognize that our activities impact the societies in which we operate, and we have a long tradition of conducting a dialogue 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. This includes dialogue with traditional Quilombola groups in Brazil. The current grievance mechanism for Hydro's activities in Brazil was introduced in 2014. The mechanism is serving as a pilot for a corporate-wide solution. 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.

In 2016, Hydro entered into a two-year partnership with the Danish Institute for Human Rights (DIHR). The new partnership aims at supporting better integration of human rights throughout Hydro operations and activities. Hydro has been working with DIHR since 2011.

Hydro's human rights policy was updated in 2016 according to changes in international requirements and following a third-party consultation.

In 2016, Hydro spent NOK 28 million on community investments, charitable donations and sponsorships, of which about 70 percent was related to community investments. In Barcarena, we have performed a feasibility study on a project aimed at engaging with families and individuals making a living from collecting waste that can be reused or recycled. The project will offer opportunities to all the currently more than 100 so-called catadores and promote a substantial improvement in their working conditions, including health and safety.

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. 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.

Hydro's supplier requirements related to corporate responsibility are, as stated in our global 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.

From 2016, Hydro prepares a UK Modern Slavery Act transparency statement, see later in this report.

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.

We 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. Hydro is 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, see later in 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 delivery to the automotive sector

The target includes the effects of forest clearing and rehabilitation in Paragominas in Brazil. While total Greenhouse gas (GHG) emissions are expected to increase towards 2020, mainly due to increased production of alumina and primary aluminium, Hydro is on track towards 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. Our carbon neutrality is also sensitive to our penetration into the automotive market.

GHG emissions from Hydro's current consolidated activities as well as emissions from our ownership equity - including indirect emissions from electricity generation increased by 3 percent in 2016, mainly due to increased production of alumina and primary aluminium as well as production disturbances in Årdal following power outages.

The inherent properties of aluminium makes recycling attractive. The metal can be recycled over and over again 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 thus a prerequisite to reach our carbon neutrality ambition. Increased recycling capacity in Clervaux, Luxembourg started up at year-end 2015 and a new used beverage can line in Neuss, Germany started up in February 2016. The ramp-up in Neuss is delayed, but is expected to be completed by the end of 2017. Together, the two lines are planned to add post-consumer scrap recycling capacity of 80,000 mt.

Our environmental strategy also emphasizes:

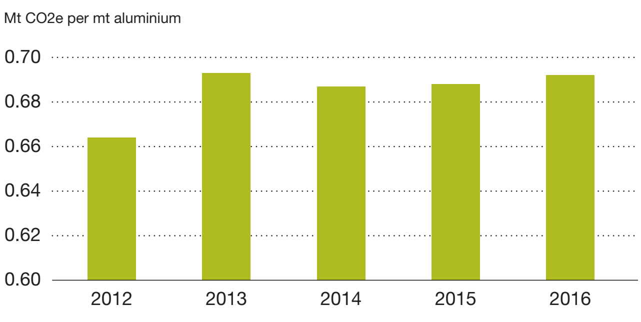
- Ecosystems and biodiversity
- Water
- Waste and efficient resource use
- Product stewardship

Biodiversity is an important issue in Pará in Brazil and also 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.

We managed in 2016 to rehabilitate an area that was bigger than the area mined, excluding area used for new tailings dams and other necessary infrastructure that year. Of the 181 hectares (ha) made available for rehabilitation, we rehabilitated 180 ha. Still, we did not reach the communicated 2016 target of 325 ha rehabilitated.

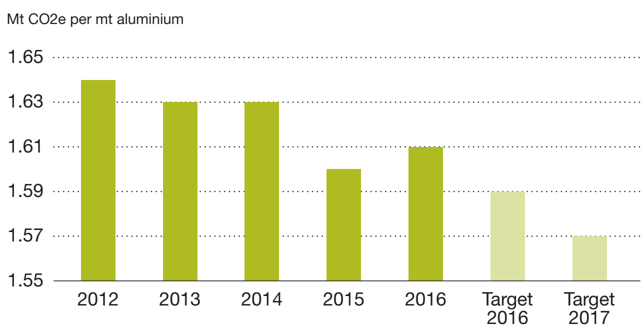
When the current tailings dams are closed, they need to settle for minimum five years before they will be available for rehabilitation. We will then get a new rehabilitation gap. We will continue to strive for a year-on-year balance between

GHG emission intensity – alumina refining



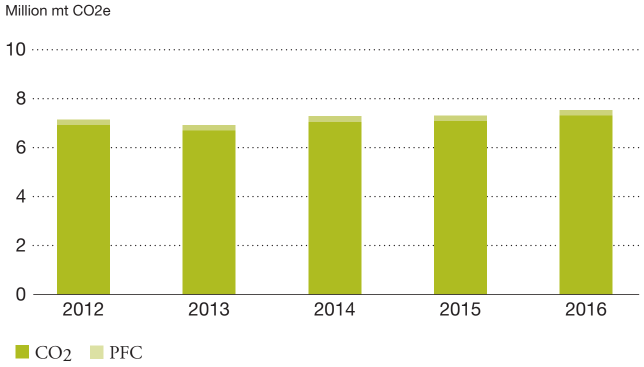
Includes greenhouse gas (GHG) emissions from alumina refining.

GHG emission intensity – electrolysis

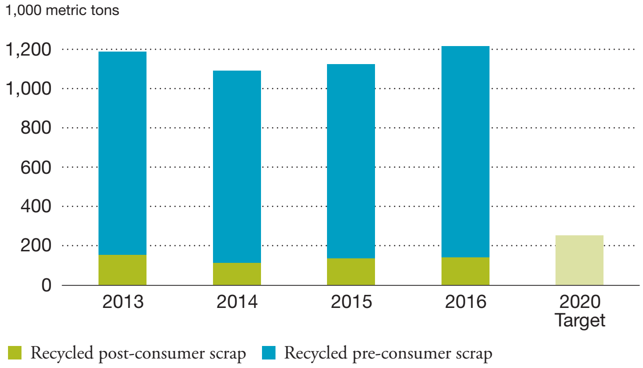


Includes greenhouse gas (GHG) emissions from electrolysis in primary aluminium production in Hydro's consolidated activities.

Direct greenhouse gas emissions from Hydro's consolidated activities



Recycling



rehabilitated and mined areas. In 2017, we will review our rehabilitation definitions and evaluate to define a new target that will more efficiently address our main challenges going forward. The 2020 target of closing the current rehabilitation gap remains unchanged.

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. BRC was further strengthened in January 2016 through a new research collaboration agreement between the Research Council of Norway and the state of Pará.

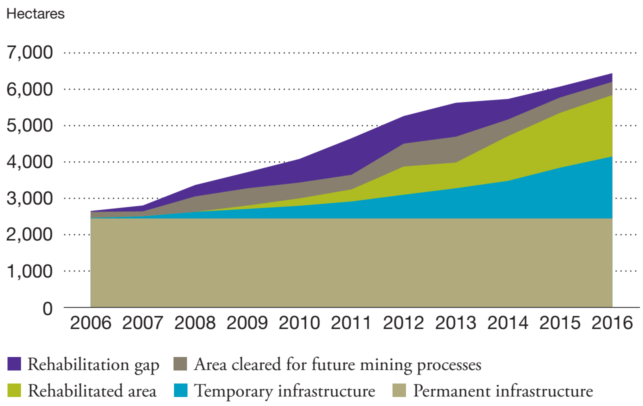
In addition to land use and biodiversity, the main environmental issues in bauxite extraction and alumina refining include waste disposal and greenhouse gas emissions. Waste production includes significant amounts of mineral rejects (tailings) from the bauxite extraction process and bauxite residue, 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.

The current tailings dams, which are expected to be full in 2017, are constructed on a gradient slope in a natural valley. The new tailings dam will be situated on a plateau where the mining is finalized. When full, the tailings dams need to settle before reforestation can start.

Bauxite residue is a by-product of the alumina refining process. We use dry stacking technology for disposing of bauxite residue. The 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 recover caustic soda for reuse. The construction of a new bauxite residue deposit area at Alunorte includes more advanced press filters which were opened in August 2016, reducing the moisture content from 36 percent to 22 percent and contributes to further lowering the alkalinity. When fully ramped-up by the end of the first half of 2017, the press filter plant is planned to cover all bauxite residue resulting in lower deposited volumes and reducing environmental impact in the long term. We also participate in international collaboration projects investigating possibilities to use bauxite residue as a resource. Additions to cement and other construction materials are promising areas that will be pursued further.

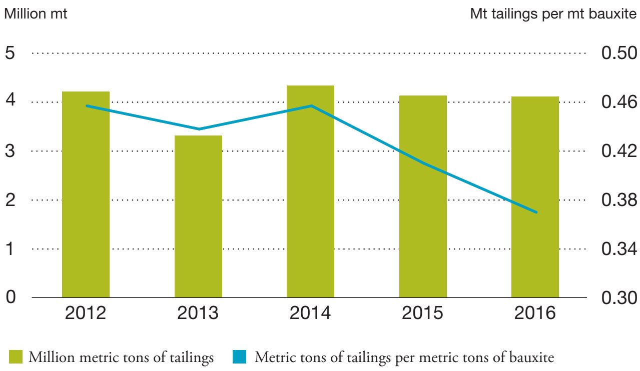
The dams are frequently inspected by Hydro and Brazilian authorities, and are also subject to inspections by e.g. Norwegian Geotechnical Institute (NGI) and Geomecanica. In 2016, NGI followed up an established action plan to secure the long term viability of the tailings dams and inspected the dams both in Paragominas and Alunorte. When full, the tailings dams need to settle before reforestation can start.

Land use and rehabilitation – Paragominas

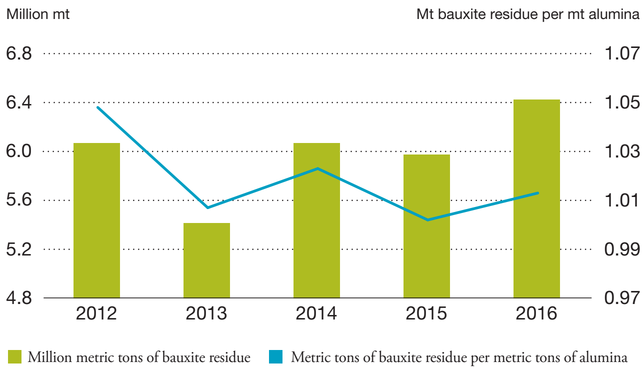


Permanent infrastructure includes areas related to administrative buildings, industrial facilities, current tailings dams, the pipeline to Alunorte and permanent roads. Temporary infrastructure includes among other things temporary roads and areas dedicated for new tailings dams.

Tailings from bauxite production



Bauxite residue from alumina production



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

The 2016 annual review of water use revealed that 2.19 million m^3 of Hydro's overall fresh water input came from water-stressed areas, with regard to annual renewable water supply (according to WBCSD's definition). These areas include Germany and other parts of Europe, where water supply is well-regulated. Our ambition is to increase water efficiency by 15 percent in water-scarce areas within 2020, compared with a 2010 baseline. Qatalum in Qatar relies on public water supply produced by desalination. Sea water is used for wet cooling towers at the power plant.

A mass balance of mercury at Alunorte in Brazil was initiated in 2015 and finalized in 2016. An action plan is established, and an abatement system for emissions to air is under evaluation.

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. Also, we assess other aspects such as energy and material consumption, toxicity and recyclability.

People

Our ambition is to avoid all serious accidents. With no fatal accidents and a TRI [1] rate of 2.6 for both employees and contractor employees, Hydro had its best recorded safety results in 2016. Also the number of high-risk incidents and major accidents within Hydro's operations continued to fall, and the company's safety performance remains among the best in the industry. Internal independent investigations are routinely initiated after fatal accidents and other serious incidents to identify the causes and reduce risk for recurrences.

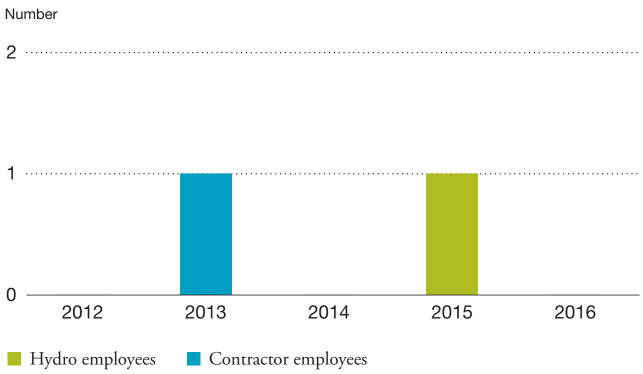
Our approach to improving safety performance is based on risk management, leadership qualities and shop floor engagement.

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. We use our proactive tool for risk assessment of work environment to identify employees potentially at risk of developing occupational illnesses and implement risk reducing measures. To encourage further improvement of the physical and chemical work environment, we have established a performance indicator based on the risk assessment. This is a proactive indicator, driving improvement of the work environment, reducing exposure to physical and chemical agents that has the potential of causing ill-health. The indicator is being used by all production sites, and the majority has established local targets and track the progress. In 2016, a new methodology for risk assessments of psychosocial work environment was tested in Rolled Products. A working group will analyze the experiences to find a company-wide applicable system.

The occupational illness rate in 2016 was 0.7 cases per million hours worked, down from 1.0 in 2015 and steadily decreasing since 2012. Most of the reported cases are related to noise. Near half the reported injuries in 2016 were related to hands, about 17 percent legs, 15 percent arms and shoulders and about 16 percent related to the face, eyes and ears.

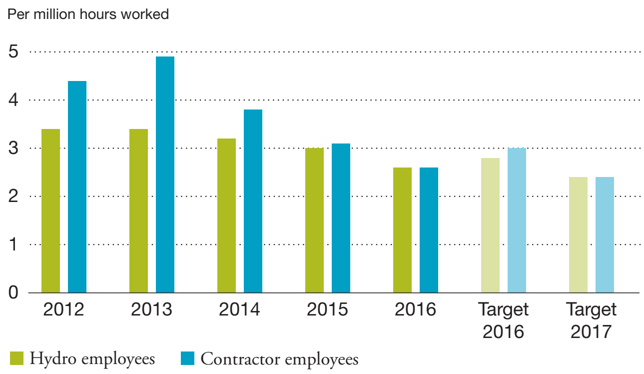
1) Total Recordable Injuries per million hours worked

Fatal accidents



A Hydro employee on business travel became victim of the Germanwings tragedy in 2015.

Total recordable injuries



Sick leave in Hydro's global organization increased from 4.0 percent in 2015 to 4.3 percent in 2016. In Norway, sick leave increased from 4.3 percent to 4.4 percent. Women had a sick leave of 4.8 percent and men 4.3 percent.

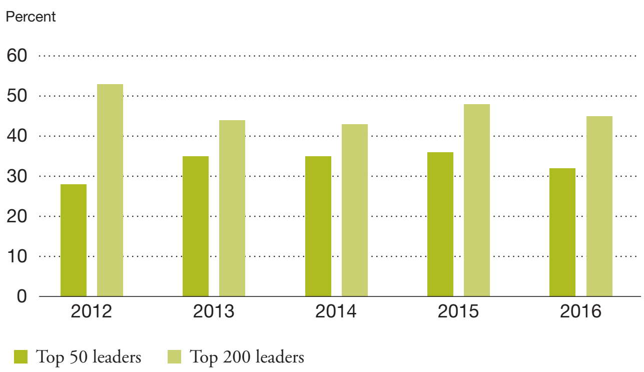
Hydro had 12,911 permanent employees at the end of 2016, a decrease from 13,263 in 2015. The reduction was mainly due to the divestment of Slim in Italy at year-end 2015. In addition, we had 1,266 temporary employees compared to 1,144 the year before. Contractor employees represented about 9,500 full-time equivalents during 2016, up from 7,700 in 2015. The large majority of employees are concentrated in Brazil, Germany and Norway.

In order to deliver on our strategic goals and remain competitive, Hydro needs employees with the right competence. This means that Hydro is highly dedicated to attracting, developing and retaining competence to ensure our future success.

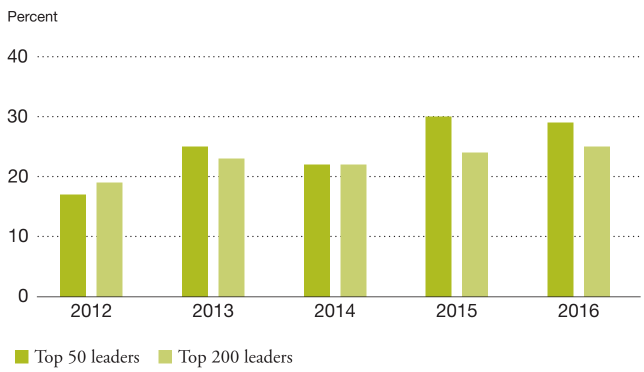
Hydro updated its people strategy in 2016 to ensure that it continues to support the company's strategic goals. The strategy identified that Hydro has most of the required people processes in place, but there is a need to reinforce or develop some, like strategic workforce planning and competence practice. The strategy also reinforced the need to give due attention to both leaders and specialists to increase innovation and agility. We will work further on this in 2017.

Hydro significantly improved its score on its global employee engagement survey Hydro Monitor, reaching the top 10 percent according to the IBM External Norm and outperforming its 2020 ambition to be in the top 25 percent on the Employee Engagement Index. Maintaining the engagement will be a key priority going forward. The average score on the Employee Engagement Index was 83 percent. Women scored on average the highest, 85 percent, while men on average scored 82 percent. The next Hydro Monitor survey is in 2018. Most important is follow-up of the survey. All units have action plans based on their results.

Share of non-Norwegian leaders



Share of women leaders



The total share of women at all levels in Hydro was 14 percent in 2016.

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. Implementation of the process completed in 2016 when all employees (excluding employees on leave and those being employed after the main part of My Way is performed) were invited and 98 percent actually participated.

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. 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.

We see diversity as a source of competitive advantage for Hydro and emphasize diversity in nationality, culture, gender, age and competence when recruiting and when forming management teams and other working groups. In 2016, 14 percent of Hydro's employees globally were women, up from 13 percent in 2015. The share of women was 44 percent in Hydro's Corporate Management Board in 2016. With three women among the normally seven shareholder-elected members in the board of directors, Hydro complies with the Norwegian legal requirements on women representation. Hydro is making progress on the implementation of its diversity road maps and on integrating diversity in key people processes such as recruiting, leadership development, My Way and Hydro Monitor. Progress is being made towards the 2020 targets, although at a slower pace than we would like. We are therefore making some changes to our approach which includes more targeted roadmaps, further embed diversity in our people processes and develop some new initiatives.

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 4.7 percent of the required employees by the end of 2016, while Albras had 4.3 percent. All sites 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. Salaries in the organization are reviewed on a regular basis. There are no significant gender-pay differentials for employees earning collectively negotiated wages.

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.

The board of directors would like to extend its appreciation to the Hydro workforce, acknowledging the crucial contributions to everyday operational excellence, continuous improvement and enhanced financial results made by the competent, motivated and determined Hydro employees all across the value-chain, countries and plants.

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 and CSR. The board of directors is closely following the market and macro-economic developments relevant for the aluminium industry. In 2016, the board of directors had deep-dives related to Bauxite & Alumina, Primary Metal and Rolled Products. The board of directors also visited Karmøy and Karmøy Technology Pilot, including a deep-dive on the Karmøy Technology Pilot.

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 in 2016, which in turn assessed the board's composition and competence.

The board of directors held 11 meetings in 2016 with an attendance of 93 percent. The compensation committee held five meetings and the audit committee six meetings. Inge K. Hansen and Eva Persson stepped down from the board of directors and were replaced by Thomas Schulz and Marianne Wiinholt as of May 26, 2016. From the same date, Irene Rummelhoff became new deputy chairperson after Hansen. Effective of January 1, 2017, Pedro José Rodrigues stepped down from the board of directors.

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

- *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.
- *Investments:* Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments
- *Adjusted net 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 income[1)]

NOK million	**Year 2016**	Year 2015
Unrealized derivative effects on LME related contracts	**(401)**	415
Unrealized derivative effects on power and raw material contracts	**(61)**	(419)
Metal effect, Rolled Products	**(91)**	458
Significant rationalization charges and closure costs	**192**	-
Impairment charges (PP&E and equity accounted investments)	**426**	-
(Gains)/losses on divestment	**(314)**	365
Other effects	**(223)**	285
Items excluded in equity accounted investment	**(113)**	294
Items excluded from underlying EBIT	**(586)**	1 398
Net foreign exchange (gain)/loss	**(2 266)**	4 397
Calculated income tax effect	**841**	(1 418)
Other adjustments to net income[2)]	**(700)**	-
Items excluded from underlying net income	**(2 712)**	4 377
Income (loss) tax rate	**28 %**	32 %
Underlying income (loss) tax rate	**38 %**	27 %

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

2) Hydro recognized approximately NOK 600 million in reduced tax expense and approximately NOK 100 million in interest income following a tax dispute that was ruled in favor of Hydro 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.
- *Items excluded in equity accounted investments* reflects Hydro's share of items excluded from underlying net income in Sapa and Qatalum and are based on Hydro's definitions, including both timing effects and material items not regarded as part of underlying business performance for the period.
- *Net foreign exchange (gain) loss:* Realized and unrealized gains and losses on foreign currency denominated accounts receivable and payable, funding and deposits, embedded currency derivatives in certain power contracts and forward currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and operating capital.

- *Calculated income tax effect:* In order to present underlying net income on a basis comparable with our underlying operating performance, the underlying income taxes are adjusted for the expected taxable effects on items excluded from underlying income before tax.
- *Other adjustments to net income* include other major financial and tax related effects not regarded as part of the underlying business performance of the period.

Items excluded from underlying EBIT[1)]

NOK million	Year 2016	Year 2015
Unrealized derivative effects on LME related contracts	-	11
Impairment charges	285	-
Other effects[2)]	(254)	-
Bauxite & Alumina	**31**	11
Unrealized derivative effects on LME related contracts	(93)	95
Unrealized derivative effects on power contracts	(125)	112
Significant rationalization charges and closure costs	192	-
Insurance compensation (Qatalum)	-	(37)
Primary Metal	**(27)**	169
Unrealized derivative effects on LME related contracts	(119)	199
Metal Markets	**(119)**	199
Unrealized derivative effects on LME related contracts	(183)	95
Metal effect	(91)	458
(Gains)/losses on divestments	28	434
Rolled Products	**(246)**	988
Unrealized derivative effects on power contracts	-	3
Energy	**-**	3
Unrealized derivative effects on power contracts[3)]	64	(533)
Unrealized derivative effects on LME related contracts[3)]	(6)	15
Impairment charges	140	-
(Gains)/losses on divestments	(342)	(69)
Termination of lease contract Vækerø Park	-	285
Other effects[4)]	32	-
Unrealized derivative effects (Sapa)	(166)	95
Significant rationalization charges and closure costs (Sapa)	55	366
Other effects (Sapa)	-	(20)
Net foreign exchange (gain) loss (Sapa)	(49)	33
Calculated income tax effect (Sapa)	48	(142)
Other and eliminations	**(225)**	28
Items excluded from underlying EBIT	**(586)**	1 398

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) 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.
4) Other effects in Other and eliminations include the re measurement of environmental liabilities, due to changes in interest rate, related to closed business in Germany.

Underlying EBITDA

NOK million	Year 2016	Year 2015
EBITDA	12 485	13 282
Items excluded from underlying EBIT	(586)	1 398
Reversal of impairments	(426)	-
Underlying EBITDA	11 474	14 680

Underlying earnings per share

NOK million	Year 2016	Year 2015
Net income (loss)	**6 586**	2 333
Items excluded from net income (loss)	**(2 712)**	4 377
Underlying net income (loss)	**3 875**	6 709
Underlying net income attributable to non-controlling interests	**129**	600
Underlying net income attributable to Hydro shareholders	**3 746**	6 110
Number of shares	**2 042**	2 041
Underlying earnings per share	**1.83**	2.98

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.

The definition of funds from operations has been somewhat simplified compared to previous practice in order to make the calculations more transparent. The change had a limited effect on the funds from operations to adjusted net cash (debt) ratio, adjusted from 89 percent to 84 percent for 2015.

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.

	Reported		Underlying	
NOK million	**2016**	2015	**2016**	2015
EBIT	**7 011**	8 258	**6 425**	9 656
Adjusted Income tax expense[1)]	**(1 977)**	(2 446)	**(2 448)**	(2 580)
EBIT after tax	**5 034**	5 813	**3 977**	7 076

		31 December	
NOK million	**2016**	2015	2014
Current assets[2)]	**23 722**	23 491	24 888
Property, plant and equipment	**58 734**	51 174	55 719
Other non-current assets	**35 688**	35 210	34 627
Current liabilities[3)]	**(13 823)**	(13 838)	(13 077)
Non-current liabilities[4)]	**(22 651)**	(21 847)	(22 088)
Capital Employed	**81 670**	74 190	80 069

	Reported		Underlying	
Return on average Capital Employed (RoaCE)	**2016**	2015	**2016**	2015
Hydro	**6.5 %**	7.5 %	**5.1 %**	9.2 %

1) Adjusted Income tax expense is based on reported and underlying tax expense adjusted for tax on financial items.
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 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 Mineracao Paragominas SA, in the state of Pará, and exploration activities of Norsk Hydro Brasil Ltda. in the state of Minas Gerais. 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.

In addition 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; their number of employees; and interest paid to other legal entities in Hydro, within another jurisdiction.

The Country by country report is approved by the board of directors and included in their responsibility statement on page F77.

Payments to authorities per project and authority (exploration and extractive activities, and alumina refining) in 2016

Extractive related activities (all in Brazil) 1)	Taxes and fees 2)	Royalties	License fees 3)	Infrastructure, contractual 4)	Infrastructure, voluntary 4)	Investments	Revenues 5)	Production volume	Procurement in Brazil 5) 6)
	kNOK	kNOK	kNOK	kNOK	kNOK	kNOK	kNOK	1 000 mt	kNOK
Mineracao Paragominas SA, total	**232 477**	**82 188**	**3 070**	**2 590**	**3**	**1 018 380**	**2 906 669**	**11 132**	**2 787 149**
Federal	165 441	9 863	3 070						
Pará State	67 036	18 903	-						
Paragominas municipality	-	53 422	-						
Norsk Hydro Brasil Ltda, total	**8 215**	**-**	**2 741**	**-**	**2 050**	**34 701**	**12 725**	**-**	**99 171**
Federal	8 215	-	2 741						
Rio de Janeiro State	-	-	-						
São Paulo Municipality	-	-	-						
Alunorte - Alumina do Norte do Brasil SA, total	**717 547**	**-**	**-**	**-**	**429**	**2 432 604**	**13 812 318**	**6 341**	**10 974 395**
Federal	**710 192**	-	-						
Pará State	**7 355**	-	-						
Barcarena Municipality	-	-	-						
Total	**958 239**	**82 188**	**5 811**						

1) In 2016, 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, income tax for people or 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 2016.

5) Including power procurement and sales

6) Procurement of goods and services from countries where Hydro has extractive operations, currently Brazil only. Procurement at Alunorte includes purchase of bauxite from Paragominas.

The Norwegian country by country reporting requirement as stated in the Norwegian Accounting Act and the Country by Country Regulation also requires reporting on certain information at corporate level related to legal entities, where they are registered, their number of employees and interest paid to other legal entities in Hydro, within another jurisdiction.

Further country by country information for all consolidated legal entities

Jurisdiction	Legal entity	Ownership 31.12	Number of permanent employees [3]	Number of temporary employees [3]	Interest paid to Hydro legal entities in another jurisdiction, in kNOK
Australia	Hydro Aluminium Australia Pty. Limited	100 %	-	-	-
	Hydro Aluminium Kurri Kurri Pty. Limited	100 %	11	-	-
Total Australia			**11**	**-**	**-**
Belgium	Norsk Hydro EU Sprl	100 %	2	-	-
	Hydro Aluminium Belgium BVBA	100 %	-	-	-
Total Belgium			**2**	**-**	**-**
Brazil	Norsk Hydro Brasil Ltda.	100 %	292	35	-
	Mineração Paragominas SA	100 %	1 397	73	-
	Ananke Alumina SA	100 %	-	-	-
	ALUNORTE - Alumina do Norte do Brasil S. A.[1]	92.1 %	1 912	90	29 325
	Atlas Alumínio SA	100 %	-	-	-
	ALBRAS - Alumínio Brasileiro SA	51 %	1 131	108	-
	Calypso Alumina SA	100 %	-	-	-
	CAP - Companhia de Alumina do Pará SA	81 %	-	-	-
	Norsk Hydro Energia Ltda.	100 %	-	-	-
Total Brazil			**4 732**	**306**	**29 325**
Canada	Hydro Aluminium Canada Inc.	100 %	-	-	-
	Hydro Aluminium Canada & Co. Ltd.	100 %	3	-	81
Total Canada			**3**	**-**	**81**
China	Hydro Aluminium Beijing Ltd.	100 %	9	-	-
Total China			**9**	**-**	**-**
Denmark	Hydro Aluminium Rolled Products Denmark A/S	100 %	2	-	-
Total Denmark			**2**	**-**	**-**
France	Extrusion Services S.a.r.l	100 %	44	-	3
	Hydro Aluminium Sales and Trading s.n.c.	100 %	3	-	-
	Hydro Aluminium France S.A.S.	100 %	8	-	-
Total France			**55**	**-**	**3**
Germany	Norsk Hydro Deutschland GmbH & Co. KG	Liquidated	-	-	-
	Norsk Hydro Deutschland Verwaltungs GmbH	100 %	-	-	-
	Hydro Aluminium Deutschland GmbH	100 %	66	3	-
	Hydro Aluminium Rolled Products GmbH	100 %	3 315	266	-
	Hydro Aluminium Dormagen GmbH	100 %	25	8	-
	Hydro Aluminium Gießerei Rackwitz GmbH	100 %	56	9	-
	Hydro Energy GmbH	100 %	-	-	-
	Hydro Aluminium High Purity GmbH	100 %	60	3	-
	VAW-Innwerk Unterstützungs-Gesellschaft GmbH	77.5 %	-	-	-
	Hydro Aluminium Recycling Deutschland GmbH	100 %	29	-	-
	Standort-Entwicklungs-Gesellschaft Nabwerk mbH	100 %	-	-	-
Total Germany			**3 551**	**289**	**-**
Italy	Hydro Aluminium Metal Products S.r.l.	100 %	2	-	-
Total Italy			**2**	-	**-**
Japan	Hydro Aluminium Japan KK	100 %	6	-	-
Total Japan			**6**	**-**	**-**
Luxembourg	Hydro Aluminium Clervaux S.A.	100 %	51	7	-
Total Luxembourg			**51**	**7**	**-**
Netherlands	Norsk Hydro Holland B.V.	100 %	4	-	-
	Hydro Alunorte B.V.	100 %	-	-	-
	Hydro Albras B.V.	100 %	-	-	-
	Hydro CAP B.V.	100 %	-	-	-
	Hydro Aluminium Pará B.V.	100 %	-	-	-
	Hydro Paragominas B.V.	100 %	-	-	2
	Hydro Aluminium Qatalum Holding B.V.	100 %	-	-	-
	Hydro Aluminium Investment B.V.	100 %	-	-	-
	Hydro Aluminium Netherlands B.V	100 %	-	-	-

Jurisdiction	Legal entity	Ownership 31.12	Number of permanent employees 3)	Number of temporary employees 3)	Interest paid to Hydro legal entities in another jurisdiction, in kNOK
	Hydro Aluminium Brasil Investment B.V.	100 %	-	-	-
	Hydro Aluminium Rolled Products Benelux B.V.	100 %	3	-	-
Total Netherlands			**7**	**-**	**2**
Norway	Norsk Hydro ASA	-	267	5	-
	Hydro Aluminium AS	100 %	2 282	444	-
	Hydro Invest Porsgrunn AS	100 %	-	-	-
	Hydro Aluminium Rolled Products AS	100 %	633	47	-
	Hycast AS	100 %	46	4	-
	Sør-Norge Aluminium AS	100 %	248	137	-
	Vækerø Gård Barnehage ANS	100 %	-	-	-
	Hydro Energi AS	100 %	176	12	-
	Svælgfos AS	100 %	-	-	-
	Hydro Vigelands Brug AS	100 %	34	3	-
	Røldal-Suldal Kraft AS	91.3 %	-	-	-
	Skafså Kraftverk ANS	33 %			
	Norsk Hydro Plastic Pipe AS	Liquidated	-	-	-
	Herøya Nett AS	100 %	31	1	-
	Hydro Vigelandsfoss AS	100 %	-	-	-
	Herøya Industripark AS[2)]	0 %	-	-	-
Total Norway			**3 717**	**653**	-
Poland	Hydro Aluminium Rolled Products Polska Sp. z o.o.	100 %	5	-	-
Total Poland			**5**	**-**	**-**
Singapore	Hydro Aluminium Asia Pte. Ltd	100 %	14	-	(24)
	Hydro Aluminium Asia Rolled Products Pte. Ltd.	100 %	3	-	-
Total Singapore			**17**	**-**	**(24)**
Slovakia	Slovalco a.s.	55.3 %	490	-	-
	ZSNP DA, s.r.o.	55.3 %	-	-	-
Total Slovakia			**490**	**-**	**-**
Spain	Hydro Aluminium Iberia S.A.U	100 %	48	8	-
	Hydro Aluminium Rolled Products Iberia S.L.	100 %	5	-	-
Total Spain			**53**	**8**	**-**
Sweden	Hydro Aluminium Sverige AB	100 %	3	-	-
Total Sweden			**3**	**-**	**-**
Switzerland	Hydro Aluminium International SA[1)]	100 %	9	-	11 538
	Hydro Aluminium Walzprodukte AG	100 %	2	-	-
Total Switzerland			**11**	**-**	**11 538**
United Kingdom	Hydro Aluminium Deeside Ltd.	100 %	42	-	9
	Norsk Hydro Employee Trust Ltd.	100 %	-	-	-
	Hydro Motorcast Leeds (Property) Ltd.	100 %	-	-	120
	Hydro Aluminium Rolled Products Ltd.	100 %	6	-	-
Total UK			**48**	**-**	**129**
USA	Norsk Hydro North America, Inc.	100 %	-	-	1 185
	Hydro Aluminum Metals USA, LLC	100 %	128	3	-
	Hydro Aluminum USA, Inc.	100 %	6	-	-
	Hydro Aluminum Tomago Inc.	100 %	-	-	-
Total USA			**134**	**3**	**1 185**
Grand total			**12 911**	**1 266**	**42 239**

1) 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.
2) Entity sold during 2016.
3) Number of employees is based on the legal entity each employee is employed by.

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 2016.

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. 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.

The second deviation from section 6 is that 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.

The third deviation from section 6 concerns section 9 in Hydro's articles of association which 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:
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:
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 34.7 percent of the Hydro shares (as of 31.12.2016) 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 products as well as recycling. Based in Norway, the company has 13,000 employees involved in activities in more than 40 countries on all continents. Rooted in more than a century of experience in renewable energy production, technology development and 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 stable or increasing 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 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 multiple 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. One example of this is the Vale transaction in 2011, where the board was authorized to issue consideration shares to Vale.

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 174 in Hydro's Annual Report 2016.

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. Invitations are sent to the shareholders or to the bank/broker where the shareholder's securities account is held.

Sales of shares to employees 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 other transactions that were not immaterial between the group and its shareholders, board members, corporate management board or related parties in 2016 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, 2016 the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owned 34.7 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 175 in Hydro's Annual Report 2016 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, 2016 the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owned 34.7 percent of Hydro's shares, while the Government Pension Fund Norway owned 6.2 percent. Shareholding is based on information from the Norwegian Central Securities Depositary (VPS) as of December 31, 2016. 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 174 in Hydro's Annual Report 2016.

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. Pedro José Rodrigues, whois currently a consultant to Vale S.A., was a member of the board of directors until 2016-12-31. Vale is a significant supplier of bauxite to Hydro and was a significant supplier of electricity till the end of 2014. Rodrigues abstained himself from discussions related to Vale in Hydro's board of directors due to his relationship with the company. There were also a few matters where certain board members where disqualified. Liv Monica Stubholt is since 1 September 2015 a partner of Advokatfirmaet Selmer ANS. Selmer invoiced services to Hydro in 2016 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.

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, 2016, seven of the board's directors own a total of 123,075 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 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 administrating 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. Both committees consist of 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 182-183 and 185-186 in Hydro's Annual Report 2016. 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. Neither have we 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 at all 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 at least annually 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 May 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 152, 181 and 187 in Hydro's Annual Report 2016, 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 through its activities in Hydro Aluminium Deeside Ltd. The statement is valid for Norsk Hydro ASA and its consolidated subsidiaries including Hydro Aluminium Deeside 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

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 2016, 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 U.S.

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. Through the Sapa joint venture transaction we have transformed our extrusion operations and generated substantial synergies.

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.

Our approach

We require adherence with external laws and regulations as well as internal directives relating to identifying and mitigating risks of human rights violations. Our compliance system is based on prevention, detection, reporting and responding. Respecting human rights are integral to our supplier requirements. 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

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. We support key frameworks that define human rights principles and are committed to following these.

Risk analysis

As a global aluminium company with mining interests and about 11,000 active suppliers, Hydro is at risk of being exposed to human rights violations including modern slavery. 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. We require adherence with laws and regulations as well as internal directives relating to human rights.

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 the International Council on Mining and Metals, ICMM, also gives input to our assessments of human rights risks.

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.

To improve social conditions in the municipality of Barcarena, Brazil, where Albras and Alunorte are situated, Hydro is developing projects that aim to have positive impact on the social development of the municipality.

Security guards are employed on a regular basis to protect our personnel and assets. No armed guards were engaged in our activities in 2016, 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 did not detect any significant breaches of human rights in our own operations in 2016.

Human rights policy

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 are committed to the principles of non-discrimination and respecting the rights of individuals and groups. We work to ensure informed and effective participation by individuals and groups who are actually or potentially affected by our operations, and 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. We establish or facilitate access to effective grievance mechanisms for individuals and groups that may be affected by our operations, and are committed to do so in accordance with the UN Guiding Principles on Business and Human Rights.

We also recognize that business can have an important role in supporting the fulfillment of human rights. Through our operations, we contribute to the economic and human development of our employees and the communities in which we operate.

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.

Freedom of association and collective bargaining

We are 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. Almost all our production sites in Europe and Brazil are unionized.

Through joint ventures we have activities in countries where trade unions are restricted. These include Qatar, Vietnam and China, where we look for alternative forums to empower employees. This is based on our commitment to ILO's eight core conventions. In addition, we have a corporate agreement with the main unions regarding the European Works Council.

Child and forced labor

It is essential for us to avoid the use of child labor and forced labor, both in Hydro's activities and in those of our suppliers and partners. While child and forced labor has very low risk within our own operations, the risk is higher in the supply chain. Still, we have detected certain cases where contractor employees at our sites have not had all the employee rights they were entitled to. If such cases are unveiled, our approach is to correct, then act in a transparent manner, learn and implement corrective actions. For more information, see the section Responsible sourcing below.

Responsible sourcing

Hydro has about 11,000 active suppliers globally, of which the majority is situated 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. Our global procurement directive and the global procedures related to CSR in the supply chain were last revised in 2015, while the integrity risk management procedure was also revised in 2016.

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.

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 123 supplier audits, of which all included HSE and 65 percent included CSR related topics, were performed in 2016. 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. We are in particular concerned about corrective actions in relation to possible child, forced or compulsory labor.

The risk of incidents of child, 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 South America and Asia. Audits performed in China and the UAE in 2016 identified issues related to labor, wages and hours, health and safety, accommodation and management systems.

Accordingly we entered into dialogue with a number of suppliers on issues such as employment contracts, working hours, legally mandated paid time off, inadequate accommodations as well as HSE including emergency preparedness.

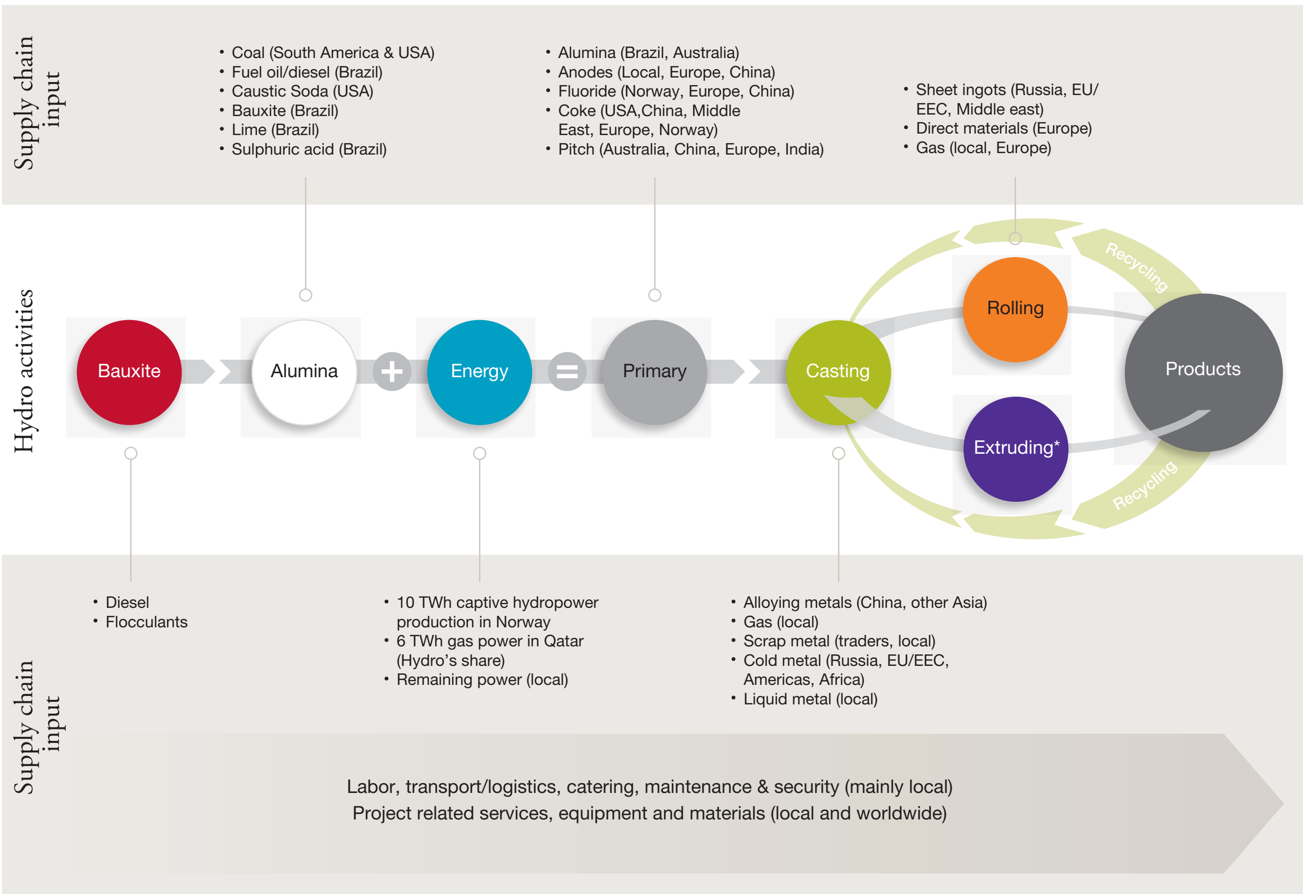
Part-owned operations

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.

The 50/50 joint venture Sapa falls under the requirements of the UK Modern Slavery Act and publishes its own transparency statement in accordance with the act.

In Qatalum, in Qatar, where Hydro also 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.

Hydro's supply chain



* Hydro produces extrusion profiles through the 50/50 joint venture Sapa

The figure shows Hydro's supply chain related to its value chain, and does not reflect the current organizational structure.

Partnering for decent working conditions

Hydro works together with other organizations for decent working conditions in the value chain, inter alias through Aluminium Stewardship Initiative and International Council of Mining and Metals. 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.

Human rights training

In 2016, more than 280 employees participated in classroom training on CSR and human rights. The training was related to Hydro's CSR aspirations supporting our business strategy and in particular emphasizing responsible sourcing. During 2017, we will review of our human rights training practices, identify potential improvement potentials, and establish a plan for 2018 activities.

About Hydro Aluminium Deeside

Hydro Aluminium Deeside Ltd. is an aluminium recycling facility in Wrexham, UK. The plant has about 40 employees and an annual production capacity of 60,000 metric tons of extrusion ingot. The turnover in 2016 was about GBP 53 million. Its main suppliers are located in the UK (40 percent), Mozambique (20 percent) and Australia (10 percent).

All documents listed under References below are also valid to Hydro Aluminium Deeside Ltd.

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

Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a net income of NOK 9,114 million in 2016 compared with NOK 2,379 million in 2015.

Hydro's Board of Directors proposes to pay a dividend of NOK 1.25 per share for 2016, for approval by the Annual General Meeting on May 3, 2017, demonstrating the company's commitment to provide a predictable and competitive cash return to shareholders, and taking into account the volatility in the aluminium industry. The proposed payment represents a 40 percent pay-out ratio of reported net income for the year reflecting Hydro's operational performance for 2016 and strong financial position.

Hydro's Board of Directors has revised the company's dividend policy to reflect the ambition to pay a stable or increasing dividend. Hydro's policy is in the long term to pay out, on average, 40 percent of reported net income as dividend over the cycle.

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 14, 2017

Dag Mejdell
Dag Mejdell
Chair

Irene Rummelhoff
Deputy chair

Liv Monica B. Stubholt
Liv Monica Bargem Stubholt
Board member

Ove Ellefsen
Ove Ellefsen
Board member

Billy Fredagsvik
Billy Fredagsvik
Board member

Finn Jebsen
Finn Jebsen
Board member

Sten Roar Martinsen
Sten Roar Martinsen
Board member

Thomas Schulz
Thomas Schulz
Board member

Marianne Wiinholt
Board member

Svein Richard Brandtzæg
President and CEO

Revenue 2016

NOK MILLION

81,953

06: *Financial statements*

Consolidated financial statements

Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended December 31	Notes	**2016**	2015
Revenue	7	**81 953**	87 694
Share of the profit (loss) in equity accounted investments	7, 31	**985**	512
Other income, net	15	**1 030**	461
Total revenue and income		**83 969**	88 667
Raw material and energy expense	16	**52 151**	56 330
Employee benefit expense	17	**9 485**	9 048
Depreciation and amortization expense	18	**5 041**	5 024
Impairment of non-current assets	19	**433**	(1)
Other	20, 21	**9 848**	10 008
Total expenses		**76 958**	80 409
Earnings before financial items and tax	7	**7 011**	8 258
Financial income	22	**574**	297
Financial expense	22	**1 552**	(5 130)
Financial income (expense), net		**2 126**	(4 834)
Income before tax		**9 137**	3 425
Income taxes	23	**(2 551)**	(1 092)
Net income		**6 586**	2 333
Net income attributable to non-controlling interests		**199**	313
Net income attributable to Hydro shareholders		**6 388**	2 020
Basic and diluted earnings per share attributable to Hydro shareholders	37	**3.13**	0.99

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	**2016**	2015
Net income		**6 586**	2 333
Other comprehensive income			
Items that will not be reclassified to income statement			
Remeasurement postemployment benefits, net of tax	37	**178**	764
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	37	**(41)**	126
Total		**137**	890
Items that will be reclassified to income statement			
Currency translation differences, net of tax	37	**4 114**	(2 130)
Unrealized gain on securities, net of tax	37	**(47)**	15
Cash flow hedges, net of tax	37	**115**	72
Share of other comprehensive income that will be recycled to income statement in equity accounted investments, net of tax	37	**(281)**	502
Total		**3 901**	(1 541)
Other comprehensive income		**4 038**	(651)
Total comprehensive income		**10 624**	1 681
Total comprehensive income attributable to non-controlling interests		**889**	(418)
Total comprehensive income attributable to Hydro shareholders		**9 735**	2 099

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

Consolidated balance sheets

Amounts in NOK million, December 31	Notes	**2016**	2015
Assets			
Cash and cash equivalents		**8 037**	6 917
Short-term investments	24	**4 611**	5 752
Trade and other receivables	25	**10 884**	10 797
Inventories	26	**12 381**	12 192
Other current financial assets	13	**457**	502
Total current assets		**36 371**	36 160
Property, plant and equipment	28	**58 734**	51 174
Intangible assets	29, 30	**5 811**	5 121
Investments accounted for using the equity method	31	**19 807**	20 150
Other non-current assets	13, 27	**4 309**	4 614
Prepaid pension	36	**4 195**	3 382
Deferred tax assets	23	**1 566**	1 943
Total non-current assets		**94 422**	86 384
Total assets	7	**130 793**	122 544
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	33	**3 283**	3 562
Trade and other payables	32	**10 108**	9 375
Provisions	34	**1 417**	1 147
Taxes payable		**1 773**	1 338
Other current financial liabilities	13	**526**	1 977
Total current liabilities		**17 106**	17 399
Long-term debt	33	**3 397**	3 969
Provisions	34	**4 384**	3 264
Pension liabilities	36	**12 871**	12 782
Other non-current financial liabilities	13	**1 067**	2 169
Other liabilities		**1 944**	1 632
Deferred tax liabilities	23	**2 384**	1 999
Total non-current liabilities		**26 047**	25 816
Total liabilities		**43 153**	43 215
Share capital	37	**2 272**	2 272
Additional paid-in capital	37	**29 070**	29 068
Treasury shares	37	**(870)**	(913)
Retained earnings		**50 210**	45 850
Other components of equity	37	**1 224**	(2 107)
Equity attributable to Hydro shareholders		**81 906**	74 169
Non-controlling interests		**5 733**	5 159
Total equity		**87 640**	79 329
Total liabilities and equity		**130 793**	122 544

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	**2016**	2015
Operating activities			
Net income		**6 586**	2 333
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment	7, 18, 19	**5 474**	5 023
Share of profit in equity accounted investments	7, 31	**(985)**	(512)
Dividends received from equity accounted investments	31	**836**	1 037
Deferred taxes		**563**	(321)
Loss (gain) on sale of non-current assets		**(226)**	422
Net foreign exchange (gain) loss	22	**(2 266)**	4 397
Net sales of trading securities		**44**	31
Capitalized interest	22	**(97)**	(34)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		**(187)**	3 108
Inventories		**(104)**	53
Trade and other payables		**483**	(833)
Commodity derivatives		**(29)**	(71)
Other items		**(74)**	(260)
Net cash provided by operating activities	41	**10 018**	14 373
Investing activities			
Purchases of property, plant and equipment		**(6 913)**	(5 254)
Purchases of other long-term investments		**(183)**	(212)
Purchases of short-term investments		**(4 650)**	(5 050)
Proceeds from sales of property, plant and equipment		**77**	62
Investment grants received		**563**	80
Proceeds from sales of other long-term investments		**475**	(17)
Proceeds from sales of short-term investments		**5 850**	1 000
Net cash used in investing activities		**(4 781)**	(9 391)
Financing activities			
Loan proceeds		**5 208**	2 340
Principal repayments		**(7 525)**	(7 042)
Net increase (decrease) in other short-term debt		**265**	(344)
Proceeds from shares issued		**28**	35
Dividends paid		**(2 362)**	(2 370)
Net cash used in financing activities		**(4 386)**	(7 381)
Foreign currency effects on cash and bank overdraft		**269**	68
Net increase (decrease) in cash, cash equivalents and bank overdraft		**1 120**	(2 331)
Cash, cash equivalents and bank overdraft at beginning of year		**6 917**	9 248
Cash, cash equivalents and bank overdraft at end of year	41	**8 037**	6 917

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 share-holders	Non-controlling interests	Total equity
December 31, 2014		2 272	29 045	(972)	45 872	(2 187)	74 030	5 911	79 941
Treasury shares reissued to employees	37		24	58			82		82
Dividends	39				(2 042)		(2 042)	(334)	(2 375)
Total comprehensive income for the year					2 020	80	2 099	(418)	1 681
December 31, 2015		2 272	29 068	(913)	45 850	(2 107)	74 169	5 159	79 329
Treasury shares reissued 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 sold/liquidated					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

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

Oslo, March 14, 2017

Dag Mejdell
Chair

Irene Rummelhoff
Deputy chair

Liv Monica Bargem Stubholt
Board member

Ove Ellefsen
Board member

Billy Fredagsvik
Board member

Finn Jebsen
Board member

Sten Roar Martinsen
Board member

Thomas Schulz
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 13,000 people in more than 20 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, as well as rolling activities. Through joint ventures Hydro is also engaged in extrusion activities in more than 40 countries and certain other activities. The Board of Directors and the President and CEO authorized these financial statements for issue on March 14, 2017. Hydro is listed on the Oslo and London stock exchanges.

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 and financial instruments, 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, 2016. Hydro also provides the disclosure as specified under the Norwegian Accounting Law (Regnskapsloven).

The following description of accounting principles applies to Hydro's 2016 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. 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 and that can be clearly distinguished both operationally and for financial reporting purposes. 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, 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 transaction 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 not considered a separate delivery. Revenue, including the service element, is recognized at transfer of ownership 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 swaps 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 when there is probable future economic benefits and the cost can be measured reliably. 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 the 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 CO_2 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 CO_2 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. CO_2 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 relevant 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 definite 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. 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.

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 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. Realized and unrealized 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 and 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. 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 instruments used for cash-flow hedges, financial derivatives and commodity derivative contracts as well as receivables and equity interests. 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. Cash and cash equivalents in the statement of cash flows is presented net of outstanding bank overdrafts connected to cash management activities.

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 instruments used for cash-flow hedges, financial derivatives, commodity derivative contracts and other financial liabilities. 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. Hydro has elected to present an analysis of expenses based on their nature representing a common analysis of expenses through Hydro's value chain. Further, 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 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, IFRS 9 and IFRS 15 were endorsed by the EU, while IFRS 16 was not yet endorsed. Hydro is in the process of evaluating the potential accounting impact of these standards.

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. Hydro has not yet fully analyzed whether this may be applicable to any of our financial instruments. Preliminary assessment of IFRS 9 has not indicated any significant changes in timing of recognition or how to measure assets or liabilities and related income and expense. There will be some changes to presentation and disclosures, however, the detailed effect has not yet been determined. It is likely that additional risk management strategies related to commodity price exposure will qualify for hedge accounting. Hydro has not yet decided whether we will utilize these additional possibilities.

IFRS 15 Revenue from Contracts with Customers

Hydro has tentatively 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. Preliminary assessment of IFRS 15 has indicated some limited changes to identification of performance obligations and timing of recognition of revenue. The most important transaction type affected is expected to be the freight component included in sales of goods on incoterms CIF/CIP or similar terms. The freight component in these sales transactions are currently considered integral in the sale of goods, and recognized when risk and rewards of the goods are transferred to the customers. It is likely that the freight component will be deemed a separate performance obligation, and recognized as the service is performed. The amount of change will depend on Hydro's portfolio of transactions at the time of transition, however, we expect the amount of revenue and margin recognized in a later period compared to the current practice to be small.

IFRS 16 Leases

Hydro has tentatively 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 expects to 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, the measurement in this key figure is not the same as required in IFRS 16.

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.

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. 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.

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 usually the individual plant, unless the plant is an integral part of a value chain where no independent prices for the intermediate products exist, a group of plants is combined and managed to serve a common market, or 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. This requires the use of valuation models to estimate the fair value of acquired assets and liabilities. 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.

Insurance and other compensation
Compensation claims related to insurance and other arrangements are recognized when it is deemed to be virtually certain that Hydro will receive a compensation under the arrangement. Such determination requires analysis of the legal basis for the claim; any contingencies that are or may be raised by the liable party; evaluation of assessment from technical, legal or other experts; and other relevant information. To recognize such claims Hydro normally expects to have received either a confirmation from the liable party that the claim is valid and will be honored, or a confirmation from an external expert that Hydro has a valid claim with no or remote risk of not being honored. The claim is measured at Hydro's best estimate of the amount to be received.

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 future salary levels, discount rates, turnover rate and mortality.

The discount rate is based on the yield from high quality corporate bonds. Around 60 percent of Hydro's defined benefit obligation (DBO) relates to Norway. The discount rate applied for Norwegian plans as of December 31, 2016 was 2.5 percent

(2015: 2.6 percent). The discount rate is based on the yield on covered bonds [1] issued in Norway. As the market for covered bond has developed in size and liquidity we currently deem this market to be sufficiently deep to serve as reference for the discount rate for our post employment benefit plans in Norway.

Assumptions for salary increase in the remaining service period for active plan participants are based on expected salary increases for each country or economic area. Changes in these assumptions can influence the net asset or liability for the plan as well as the pension cost as further described in note 36 Employee retirement plans.

1) Covered bonds (Obligasjoner med fortrinnsrett) are debt securities backed by cash-flow from mortgages.

Note 6 - Significant subsidiaries and changes to the consolidated group

The Hydro group consists of about 80 companies in about 20 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 3,171 million as of December 31, 2016 and NOK 2,683 million as of December 31, 2015. 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 Slovac 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 1,080 million as of December 31, 2016 NOK 1,247 million as of December 31, 2015. 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 1,378 million as of December 31, 2016, and NOK 1,084 million as of December 31, 2015. 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 fixed minimum and maximum price. For 2017, the minimum price will be based on production cost plus a margin.

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.

	Albras	
Amounts in NOK million	**2016**	2015
Internal revenue	**3 293**	3 842
External revenue	**3 016**	2 787
Earnings before financial items and tax	**220**	702
Net income	**175**	354
Other comprehensive income	**999**	(1 339)
Total comprehensive income	**1 174**	(985)
Net cash flows from operating activities	**522**	1 041
Net cash flows from investing activities	**(310)**	(373)
Net cash flows from financing activities	**(148)**	(1 371)
Cash and cash equivalents	**175**	111
Other current assets	**1 288**	1 506
Non-current assets	**6 453**	5 539
Current liabilities	**(946)**	(1 020)
Non-current liabilities	**(500)**	(664)
Equity attributable to Hydro	**(3 298)**	(2 790)
Equity attributable to non-controlling interests	**(3 171)**	(2 683)
Share of net income attributable to non-controlling interest	**88**	167
Dividends paid to non-controlling interests	**87**	166

There were no significant changes to the group during 2016 or 2015.

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 five business areas Bauxite & Alumina, Primary Metal, Metal Markets, Rolled Products, and Energy. In addition, the joint venture Sapa, which is a separate operating segment, has, during 2016, exceeded the quantitative thresholds for separate reporting. Sapa was previously included in Other and eliminations.

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.

Energy includes operating and commercial responsibility for Hydro's power stations in Norway and energy sourcing for Hydro's world-wide operations.

Sapa delivers products within extrusion profiles, building systems and precision tubing and is present in more than 40 countries.

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 goup 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.

	External revenue		Internal revenue		Share of the profit (loss) in equity accounted investments	
Amounts in NOK million	**2016**	2015	**2016**	2015	**2016**	2015
Bauxite & Alumina	**12 059**	13 534	**7 484**	8 356	**-**	-
Primary Metal	**5 529**	5 373	**25 333**	26 967	**96**	389
Metal Markets	**39 420**	42 795	**3 834**	4 114	**-**	-
Rolled Products	**22 469**	24 293	**163**	(132)	**-**	-
Sapa	**-**	-	**-**	-	**889**	123
Energy	**2 426**	1 623	**4 693**	3 703	**-**	-
Other and eliminations	**50**	77	**(41 507)**	(43 008)	**-**	-
Total	**81 953**	87 694	**-**	-	**985**	512

Amounts in NOK million	Depreciation, amortization and impairment 2016	2015	Earnings before financial items and tax (EBIT) [1] 2016	2015	EBITDA 2016	2015
Bauxite & Alumina	**2 279**	1 983	**1 196**	2 411	**3 475**	4 393
Primary Metal	**1 913**	1 952	**2 285**	4 459	**4 199**	6 411
Metal Markets	**94**	101	**629**	180	**723**	281
Rolled Products [2]	**799**	732	**953**	154	**1 752**	886
Sapa	**-**	-	**889**	123	**889**	123
Energy	**210**	195	**1 343**	1 103	**1 553**	1 297
Other and eliminations	**178**	61	**(285)**	(170)	**(107)**	(109)
Total	**5 474**	5 023	**7 011**	8 258	**12 485**	13 282

Amounts in NOK million	Non-current assets 2016	2015	Total assets [3] 2016	2015	Investments [4] 2016	2015
Bauxite & Alumina	**36 641**	31 171	**43 546**	36 640	**3 544**	1 923
Primary Metal	**31 297**	29 740	**40 573**	38 988	**3 396**	1 839
Metal Markets	**1 147**	1 401	**6 955**	7 354	**101**	280
Rolled Products	**8 253**	7 856	**16 629**	16 120	**1 615**	1 434
Sapa	**8 399**	7 937	**8 399**	7 937	**-**	-
Energy	**5 208**	5 395	**6 247**	6 464	**318**	290
Other and eliminations	**3 477**	2 884	**8 444**	9 041	**162**	99
Total	**94 422**	86 384	**130 793**	122 544	**9 137**	5 865

1) 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.
2) EBIT and EBITDA for Rolled Products for 2015 includes the loss on sale of the rolling mill in Slim, Italy, of NOK 434 million.
3) Total assets exclude internal cash accounts and accounts receivables related to group relief.
4) Additions to property, plant and equipment plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments.

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.

	Revenue		Non-current assets		Investments [4]	
Amounts in NOK million	**2016**	2015	**2016**	2015	**2016**	2015
Norway	**2 986**	2 310	**28 007**	24 901	**3 404**	1 678
Germany	**12 490**	13 854	**8 431**	8 062	**1 636**	1 475
Spain	**3 920**	3 639	**89**	155	**3**	7
Great Britain	**3 844**	3 723	**77**	114	**4**	5
Poland	**3 102**	2 843	**-**	-	**-**	-
Italy	**3 075**	3 543	**-**	-	**-**	18
France	**2 769**	2 885	**36**	40	**6**	5
The Netherlands	**1 905**	1 933	**675**	924	**23**	17
Austria	**1 620**	1 866	**-**	-	**-**	-
Denmark	**1 443**	1 597	**-**	-	**-**	-
Belgium	**1 092**	1 212	**-**	-	**-**	-
Sweden	**945**	818	**-**	-	**-**	-
Czech Republic	**715**	608	**-**	-	**-**	-
Portugal	**639**	597	**-**	-	**-**	-
Hungary	**622**	528	**-**	-	**-**	-
Slovakia	**466**	522	**1 140**	1 277	**45**	105
Other	**1 385**	1 686	**143**	144	**21**	62
Total EU	**40 033**	41 854	**10 591**	10 717	**1 739**	1 695
Switzerland	**4 042**	4 372	**296**	281	**-**	2
Turkey	**1 363**	1 872	**-**	-	**-**	-
Other Europe	**566**	1 000	**-**	-	**-**	-
Total Europe	**48 990**	51 407	**38 895**	35 899	**5 144**	3 375
USA	**7 101**	7 343	**779**	995	**44**	20
Canada	**613**	637	**1 931**	2 061	**64**	130
Brazil	**3 700**	3 108	**40 618**	34 329	**3 856**	2 295
Mexico	**870**	602	**-**	-	**-**	-
Other Americas	**206**	184	**-**	-	**-**	-
Qatar	**1 682**	2 003	**11 461**	12 279	**-**	-
Japan	**3 665**	4 705	**3**	3	**-**	1
Singapore	**2 870**	3 329	**-**	1	**-**	1
South Korea	**1 879**	2 145	**-**	-	**-**	-
China	**1 627**	1 742	**-**	3	**-**	-
Saudi Arabia	**1 619**	2 347	**-**	-	**-**	-
Hong Kong	**930**	1 452	**-**	-	**-**	-
United Arab Emirates	**823**	390	**-**	-	**-**	-
India	**774**	669	**-**	-	**-**	-
Thailand	**742**	779	**-**	-	**-**	-
Taiwan	**685**	834	**-**	-	**-**	-
Other Asia	**1 789**	2 285	**-**	-	**-**	-
Australia and New Zealand	**941**	1 310	**735**	815	**29**	45
Africa	**448**	424	**-**	-	**-**	-
Total outside Europe	**32 963**	36 287	**55 527**	50 485	**3 993**	2 491
Total	**81 953**	87 694	**94 422**	86 384	**9 137**	5 865

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 good industry standards in the country in question. Where appropriate this package should include, in addition to the base salary, also a performance-based incentive that overall shall reflect individual performance."*

Process for determination of remuneration

The Board of Directors has appointed a separate compensation committee consisting of the board chairperson and one shareholder-elected board member, as well as 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 for the Board of Directors and the CEO and is responsible primarily 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.

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 2017. The Board of Directors proposes that the principles set forth below shall apply for 2017 and up until the Annual General Meeting in 2018.

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 his or her annual base salary. The maximum annual performance-based bonus payable to the other members of the Corporate Management Board on Norwegian terms of employment is equal to 40 percent of his or her 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 a total assessment of the following elements:

(a) achievement of a pre-defined target for EBIT,

(b) achievement of strategic, operational, financial, and organizational goals, referred to as "key performance indicators" (KPIs). Depending on the business area, these goals can include, among other things,

- 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

and possibly other goals derived from the company's KPI catalog approved by the Board of Directors in 2014,

(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 30 percent of annual base salary. LTI payments are dependent on Hydro achieving positive underlying earnings before interest and tax (EBIT) for the previous financial year. The terms of this plan are changing in 2017. Payments will henceforth be based partly on achieved return on capital employed, and partly on return on capital employed measured against a weighted average of return on capital employed from comparable companies. Recipients of LTI payments are required to invest the after-tax net amount 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. The LTI plan is subject to annual evaluation and decision by the Board of Directors. 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 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

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, 2017, approximately 78 percent of the employees in Norway, including five 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.

Following changes to the Norwegian National Insurance Scheme and the Act on Defined Contribution Occupational Pension, the company has adjusted its defined contribution plan. Effective January 1, 2017, payments into the plan equal 6 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 (for a total of 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).

Effective January 1, 2017 the company has closed the 12G plan, which is the arrangement funded through operations for earning pension on the portion of any salary exceeding 12G. For employees with a defined contribution plan, 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 portion of salary exceeding 12G is included in the final salary that forms the basis for calculating pension. The closing of the 12G plan means that employees with salaries exceeding 12G as of December 31, 2016 remain in the plan, while employees with salaries below 12G on that date 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. The CEO and the other Norwegian members of the Corporate Management Board were part of the 12G plan at the beginning of 2015 and therefore remain in the plan.

The company has adapted to the new rules on age limits in the Working Environment Act by implementing an internal company age limit of 70 years effective July 1, 2016. Implementation of a new age limit, combined with new flexible rules for pension withdrawals, means 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. The company has no early retirement plan, except for the two closed schemes described below.

Until 2011, Hydro had an early retirement scheme for employees at certain levels that offered a right to retire at the age of 65 with an entitlement to 65 percent of pensionable salary until the age of 67. All current Norwegian members of the Corporate Management Board were members of the scheme when it closed and are, thus, still covered by it.

In addition, the CEO has a right to retire, and the Board of Directors may require him to do so, after the age of 62 with an entitlement to 60 percent of pensionable salary until the age of 65. From the age of 65, the entitlement is 65 percent of pensionable salary (in accordance with the scheme described in the foregoing paragraph). Two members of the Corporate Management Board belong to an early retirement scheme that gives them the right to retire at the age of 62 with an entitlement to 60 percent of pensionable salary until the age of 65, subject to at least five years of service on the Corporate Management Board between the ages of 50 and 60. This scheme was discontinued in 2012.

The pensionable salaries of the CEO and of two 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 January 1, 2017, the pensionable salaries are capped at NOK 7,247,324 for the CEO and NOK 4,445,823 for the two members of the Corporate Management Board.

Insurance
The CEO and other members of the Corporate Management Board are covered by insurance arrangements applicable to all Hydro employees with a rank of vice president or higher.

Termination agreement
In the event the CEO's employment is terminated before age 62 unilaterally by Hydro, the CEO has a contractual right to a notice period of six months, plus severance pay and other remuneration (excluding bonus and LTI payments) for 12 months but not beyond the age of 62. Two members of the Corporate Management Board have a similar arrangement as the CEO, but without the limitation of 62 years. Other Norwegian members of the Corporate Management Board have, as of the beginning of 2017, a contractual right to a notice period of six months, plus six months' severance pay.

The CEO's contract and the contracts of the two members of the Corporate Management Board referred to above give the company the right to reduce severance pay in the event of new regular income.

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 for gross breach of duty or other material breach, and subsequent termination of employment on such grounds. None of the contracts gives the right to severance pay if the employee has initiated the termination of employment.

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.

The former head of Hydro's Bauxite & Alumina business area, Alberto Fabrini, resigned in October 2016. His successor Silvio Porto, who took over on December 13, 2016, is (as Fabrini was) employed by Norsk Hydro Brasil Ltda. and has variable compensation schemes deviating from the description above. These schemes entail a framework for variable compensation of just over 9 months' base salary for each of a short-term incentive and long-term incentive. Both incentive schemes are performance-based as described above. The Board of Directors' overall assessment is that Porto's total remuneration framework is in accordance with market practice in Brazil.

Porto is covered by the share-based long-term incentive (LTI) plan described above on the same terms as the Norwegian 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 2016 was based on the guidelines presented at the Annual General Meeting in 2016.

In July 2016, the Board of Directors decided to increase the CEO's base salary by 2.5 percent, from NOK 6,065,000 to NOK 6,217,000 effective January 1, 2016.

Bonus payments for 2015 were determined and paid in 2016 on the basis of the principles described above (see also Note 9 Management remuneration). Bonus payments for 2016 were determined in March 2017 on the basis of the principles described above and will be paid during 2017.

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, 2016 and 2015 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 2016 and 2015.

Name	Base salary 1) 2)	Maximum bonus potential 1) 2)	Salary paid 1) 3)	Other benefits paid 1) 3)	Compen-sation 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)
2016										
Svein Richard Brandtzæg	6 217	3 109	6 390	300	-	2 331	1 865	2 578	29 180	210 613
Eivind Kallevik[6)]	3 014	1 206	3 481	306	107	934	754	1 045	11 788	41 802
Silvio Porto[7)]	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[8)]	3 738	2 276	3 459	822	-	1 912	-	112	16 799	24 884
2015										
Svein Richard Brandtzæg	6 065	3 033	6 207	286	-	2 068	1 820	7 807	19 954	181 055
Eivind Kallevik	2 940	1 176	3 027	279	104	773	735	988	8 025	29 636
Alberto Fabrini[8)]	3 478	5 347	3 478	1 053	-	5 121	870	98	8 085	8 085
Hilde Aasheim	3 158	1 263	3 266	206	-	898	790	2 710	8 668	59 903
Kjetil Ebbesberg[9)]	3 547	1 452	3 768	703	191	751	907	895	-	25 784
Arvid Moss	2 940	1 176	3 017	214	-	798	735	2 923	8 083	126 304
Anne-Lene Midseim[9)]	2 350	940	2 398	195	161	629	588	1 209	-	4 339
Inger Sethov[9)]	2 150	860	2 224	270	195	576	538	764	-	3 663
Hanne Simensen[9)]	2 350	940	2 442	261	150	641	588	1 310	-	2 764

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. 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. 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 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. It is calculated as the increase in the Defined Benefit Obligations (DBO) calculated with stable assumptions. As such, the number includes both the annual accrual of pension benefits and the interest element related to the total accrued pension benefit. For all individuals listed in the table, this is the estimated change from January 1 to December 31. In addition, 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, except for Alberto Fabrini. In 2016, Hydro share ownership for Fabrini is as of October 18, 2016.

6) 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.

7) 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.

8) 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 amounts are final, and prior year estimates have been updated.

9) Kjetil Ebbesberg, Anne-Lene Midseim, Inger Sethov, and Hanne Simensen became members of the Corporate Management Board as of January 1, 2015.

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 2015) 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 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 2016 for the chairperson of the board, deputy chairperson and directors are NOK 615,000 (2015: NOK 600,000), NOK 385,000 (2015: NOK 376,000) and NOK 337,000 (2015: NOK 329,000), respectively. The chairperson of the audit committee and the chairperson of the compensation committee receive an additional NOK 195,000 (2015: NOK 190,000) and NOK 112,000 (2015: NOK 109,000) annually in fees, respectively, and audit and compensation committee members receive NOK 127,000 (2015: NOK 124,000) and NOK 84,000 (2015: NOK 82,000) annually, respectively, for their participation on these committees.

Total board fees and individual board member fees for 2016 and 2015, and outstanding loans and board member share ownership as of December 31, 2016 and 2015, are presented in the tables below.

Board of Directors' fees

Amounts in NOK thousand	**2016**	2015
Fees and other remuneration - normal board activities	**3 746**	3 678
Fees - compensation committee	**315**	355
Fees - audit committee	**502**	562
Total fees for board services provided to Hydro during the year	**4 563**	4 595

	Board fees [1]		Outstanding loans [1) 2)]		Number of shares [3]	
Board member	**2016**	2015	**2016**	2015	**2016**	2015
Dag Mejdell [4]	**727**	709	**-**	-	**35 000**	35 000
Irene Rummelhoff [5]	**449**	411	**-**	-	**5 000**	5 000
Finn Jebsen [6]	**486**	411	**-**	-	**53 406**	53 406
Pedro Rodrigues [7]	**387**	399	**-**	-	**-**	-
Thomas Schulz [8]	**197**	-	**-**		**-**	
Liv Monica Stubholt [9]	**464**	453	**-**	-	**-**	-
Marianne Wiinholt [8]	**197**	-	**-**		**-**	
Ove Ellefsen [10) 11)]	**390**	329	**-**	-	**8 461**	8 083
Billy Fredagsvik [11) 12)]	**411**	453	**175**	107	**4 076**	3 698
Sten Roar Martinsen [11) 13)]	**421**	411	**-**	-	**5 132**	4 754
Inge K. Hansen [14]	**242**	566	**-**	-	**12 000**	12 000
Eva Persson [15]	**193**	453	**-**	-	**-**	-
Total	**4 563**	4 595	**175**	107	**123 075**	121 941

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, 2016 and 2015 for board members as of December 31, 2016 and 2015; otherwise loans are as of the date the individual stepped down from the Board of Directors. At the end of 2016 the loan to Billy Fredagsvik had an interest rate of 7.5 percent, with a repayment period of 23 months. All payments have been made in a timely fashion and in accordance with the agreed payment schedule. Loans have not been extended to related parties.

3) Number of shares owned as of December 31, 2016 and 2015 for board members as of December 31, 2016 and 2015; 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 until January 1, 2017.

8) Member of the board as of May 26, 2016.

9) Member of the board audit committee.

10) Member of the board audit committee as of August 1, 2016.

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 audit committee until August 1, 2016.

13) Member of the board compensation committee.

14) Deputy chairperson of the board and chairperson of the board audit committee until May 26, 2016.

15) Member of the board and member of the board audit committee until May 26, 2016.

Corporate Assembly

Corporate Assembly members owned 36,418 shares as of December 31, 2016. 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 737 thousand as of December 31, 2016. The interest rates on these loans are 3.15 percent with a repayment period of 29 years.

Note 11 - Related party information

As of December 31, 2016, The Norwegian state had ownership interests in Hydro through the Ministry of Trade, Industry and Fisheries, and Folketrygdfondet, which manages the Government Pension Fund - Norway. The Ministry of Trade, Industry and Fisheries held 34.7 percent of total shares outstanding (2015: 34.7 percent). Folketrygdfondet [1)] held 6.2 percent (2015: 6.3 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 is expected to be paid over the preparation and building period with final payments after approved project report when the project has been completed. As of the end of 2016, a total of NOK 605 million was received.

A significant share of Hydro's defined benefit post-employment plans is managed by the independent pension trust, Norsk Hydro Pensjonskasse. This 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 152 million and NOK 206 million for 2016 and 2015, respectively, related to the contract. In 2013, Hydro concluded that the rental contract was loss making and made a provision of NOK 312 million for future rental costs in excess of the benefit through sub rentals and own use of the premises. In December 2015 the contract was renegotiated. Hydro retained the rental of premises used for head-office functions, while contracts for sublease arrangements were transferred to the pension trust who also has the responsibility for future leases of premises not covered by Hydro's new lease contract. Hydro pays compensation for reduced rental and certain costs including identified maintenance projects over the remaining rental period until 2021. The change resulted in a loss of NOK 285 million recognized in 2015. The remaining provision as of December 31, 2016 was NOK 410 million.

The members of Hydro's board of directors during 2016 and 2015 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 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 from September 1, 2015. Selmer has had assignments for Hydro resulting in fees of NOK 2.0 million in 2016 and NOK 6.6 million in 2015. During 2015 through August 2015, Stubholt was partner in the law firm Advokatfirmaet Hjort DA. Hjort also had assignments for Hydro resulting in fees of NOK 0.8 million for 2015. 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. 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 Depositary (VPS) as of December 31, 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 2016 compared to previous years.

Commodity price risk exposure

Aluminium

Hydro produces primary aluminium, aluminium casthouse products and fabricated aluminium products including remelting. 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 with 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 business, 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. There are limited possibilities for hedging future premiums.

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. See the section on cash flow hedges in note 14 Derivative instruments and hedge accounting.

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 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 US dollar exposure, Hydro's policy is to raise funding primarily in US dollar. 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. Such risks are usually not hedged, and fluctuations between the functional currency and the currency in which the receivable or payable is denominated are reported in Financial expense. Borrowings are often denominated in other currencies than the functional currency of the unit, predominantly US dollar. Fluctuations between the functional currency and the borrowing currency, both short and long term, impact the recognized value of the debt, and are reported in Financial expense. 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, US dollars and Brazilian real. The corresponding interest rate exposures are consequently related to Norwegian Krone, 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:

	December 31, 2016		December 31, 2015	
Amounts in NOK million	Liabilities	Assets	Liabilities	Assets
2016			(429)	425
2017	(408)	396	(22)	20
2018	(23)	40	(5)	1
2019	(9)	5	(5)	-
2020	(4)	-	(4)	-
Total	(444)	441	(465)	446

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	Total
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
2015							
Assets - current							
Cash and cash equivalents	-	-	6 917	-	-	-	6 917
Short-term investments	1 085	-	4 667	-	-	-	5 752
Trade and other receivables	-	-	8 436	-	-	2 361	10 797
Other current financial assets	502	-	-	-	-	-	502
Assets - non-current							
Investments accounted for using the equity method	-	-	3	-	-	20 147	20 150
Other non-current assets	205	-	630	1 798	-	1 981	4 614
Liabilities - current							
Bank loans and other interest-bearing short-term debt	-	-	-	-	3 562	-	3 562
Trade and other payables	-	-	-	-	5 301	4 074	9 375
Other current financial liabilities	189		40	-	1 748	-	1 977
Liabilities - non-current							
Long-term debt	-	-	-	-	3 969	-	3 969
Other non-current financial liabilities	1 766	403	-	-	-	-	2 169

1) Financial instruments at Fair Value Through Profit or Loss (FVTPL) are trading instruments required by IAS 39 to be at FVTPL, with the exception of one element of contingent consideration from a business combination required to be at FVTPL by IFRS 3, included in Other current financial liabilities for 2015.

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.

The above specification relates to financial statement line items containing financial instruments.

In 2015, Hydro's liability to acquire the remaining shares in Paragominas was included as a financial liability at amortized cost, net of certain warranties issued by the seller in Hydro's acquisition of Vale Aluminium in 2011, measured at fair value. The liability was paid and warranties settled in December 2016.

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]
2016							
Income statement line item							
Revenue	(13)	-	-	-	-	-	(13)
Other income	(254)	-	-	-	-	-	(254)
Raw material and energy expense	141	124	-	-	-	-	265
Other expense	(292)	-	-	-	-	-	(292)
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				-			
2015							
Income statement line item							
Revenue	(517)	-	-	-	-	-	(517)
Raw material and energy expense	(177)	1	-	-	-	-	(176)
Other expense	-	-	-	-	-	-	-
Financial income	(4)	-	-	(13)	-	-	(17)
Financial expense	745	-	-	-	-	-	745
Gain/loss directly in Other comprehensive income							
Recognized in Other comprehensive income (before tax)				(23)			
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, 2016 and December 31, 2015. 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.

		Gain (loss) from 10 percent increase in						
	Fair value as of	Foreign currency exchange rates			Commodity prices		Interest	
Amounts in NOK million	December 31, 2016 [1]	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

		Gain (loss) from 10 percent increase in						
	Fair value as of	Foreign currency exchange rates			Commodity prices		Interest	
Amounts in NOK million	December 31, 2015 [1]	USD	EUR	Other	Aluminium	Other	rates	Other
Derivative financial instruments [2]	(1 600)	-	(1 005)	-	-	-	-	-
Other financial instruments [3]	8 049	(362)	280	23	-	-	(3)	29
Derivative commodity instruments [4]	(4)	(151)	1	(2)	66	(55)	28	(8)
Financial instruments through OCI [5]	820	183	(44)	1	-	16	(76)	73

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.

Hydro's management emphasizes that the above sensitivity analysis contains material limitations due to the necessarily simplified assumptions including:

- The table includes only the effects of the derivative instruments discussed above and of certain financial instruments (see footnotes in the table above) which excludes all related offsetting physical positions, contracts, and anticipated transactions.
- 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 assumption that all rates or prices simultaneously move in directions that would have negative/positive effects on Hydro's portfolio of instruments.

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 could differ materially based on actual developments in the global markets. 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	**2016**	**Level 1**	**Level 2**	**Level 3**	2015	Level 1	Level 2	Level 3
Assets								
Commodity derivatives	**504**	**139**	**339**	**26**	707	449	91	167
Securities held for trading	**1 067**	**317**	**740**	**10**	1 085	316	764	5
Available for sale financial assets	**1 132**	**-**	**-**	**1 132**	1 263	-	-	1 263
Total	**2 703**	**456**	**1 080**	**1 167**	3 055	765	855	1 435
Liabilities								
Commodity derivatives	**(508)**	**(62)**	**(398)**	**(47)**	(711)	(465)	(25)	(221)
Currency derivatives	**(805)**	**-**	**(805)**	**-**	(1 529)	(413)	(1 117)	-
Cash flow hedges	**(280)**	**-**	**-**	**(280)**	(514)	(1)	(70)	(443)
Other non-current financial liabilities	**-**	**-**	**-**	**-**	355	-	-	355
Total	**(1 593)**	**(62)**	**(1 203)**	**(328)**	(2 399)	(879)	(1 211)	(309)

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, 2014	51	(539)	(578)	(560)	1 222	306
Total gains (losses)						
in income statement	116	137	-	-	-	31
in Other comprehensive income	-	-	-	117	23	-
Reclassified to level 2	-	-	578	-	-	-
Settlements	6	193	-	-	(2)	-
Currency translation difference	(7)	(11)	-	-	20	23
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) for the period	(146)	85	-	39	(81)	408
Total gains (losses) for the period included in the income statement for assets held at the end of the reporting period	(146)	85	-	-	(10)	408

Embedded currency derivatives with long duration, exceeding ten years, were classified as level 3 measurements in 2014. During 2015 we concluded that the significant inputs used to value such instruments qualify as level 2 inputs, and reclassified the instruments accordingly.

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:

	Gain (loss) from 10 percent decrease in				
Amounts in NOK million	USD	EUR	Aluminium	Other commodity	Interest rates
Commodity derivatives	110	-	37	50	(2)
Currency derivatives	-	-	-	-	-
Cash flow hedges	-	28	-	(18)	(1)
Available for sale financial assets	(168)	-	-	-	218

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, 2016 and December 31, 2015. 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	**2016**	2015
Assets		
Electricity contracts	**320**	379
Aluminium futures, forwards and options	**395**	534
Other	**153**	35
Netting	**(364)**	(241)
Total	**504**	707
Liabilities		
Electricity contracts	**(409)**	(363)
Coal forwards	**(364)**	(241)
Aluminium futures, forwards and options	**(99)**	(347)
Netting	**364**	241
Total	**(508)**	(710)

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 an 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 periodically entered into hedge programs to secure the price of aluminium and alumina to be sold or power to be consumed. Aluminium futures, options and swaps on the London Metal Exchange and with banks, currency forwards with banks, as well as power derivatives with exchanges or producers have been used for this purpose. Certain of these hedge programs have been accounted for as cash flow hedges, where 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 2016 or 2015.

The table below gives aggregated numbers related to the cash flow hedges for the period 2015 to 2016.

	2017	**2016**	2015
Expected to be reclassified to the income statement during the year (NOK million)	(73)	**(33)**	(99)
Reclassified to the income statement from Other components of equity (NOK million) [1)]		**(81)**	(10)

1) Deviates from expected reclassifications due to changes in market prices throughout the year. Negative amounts indicate a loss.

Liabilities of NOK 280 million and NOK 443 million were recognized as the fair value of cash flow hedging instruments for December 31, 2016 and 2015, 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 2016 and 2015, 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	**2016**	2015
Gain on sale of property, plant and equipment	**102**	71
Net gain (loss) on sale of subsidiaries, associates and joint ventures [1)]	**234**	(400)
Revenue from utilities [2)]	**161**	154
Rental revenue	**85**	264
Government grants	**64**	251
Other [3)]	**385**	121
Other income, net	**1 030**	461

1) Gain in 2016 mainly related to sale of Herøya Industripark AS. Amount in 2015 includes loss related to sale of Hydro's rolling mill in Slim, Italy, of NOK 434 million.

2) Revenue from utilities includes quay structures, pipe network, tank terminal, process water and grid rental.

3) 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	**2016**	2015
Raw material expense and production related cost	**52 367**	56 089
Change in inventories own production	**(220)**	93
Write-downs of inventories	**7**	148
Reversals of write-downs of inventory	**(2)**	(1)
Raw material and energy expense	**52 151**	56 330

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 share price performance, and 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 2015 performance measurement period was accrued and recognized over the service period of December 31, 2015 through March 31, 2016, the final acceptance date of the offer. In 2016 and 2015 the participation rates of eligible employees in the employee share purchase plan were 85 and 88 percent, respectively. Details related to the employee share purchase plan are provided in the table below.

Employee share purchase plan **Performance measurement period**	2016	2015	2014
Total shareholder return performance target achieved	≥12%	<12%	≥12%
Employee rebate offered, NOK	12 500	6 250	6 250/12 500

Share purchase plan compensation	**2016**	2015
Award share price, NOK	**34.53**	46.70
Number of shares issued, per employee	**378**	268 / 536
Total number of shares issued to employees	**1 184 274**	1 694 564
Compensation expense related to the award, NOK thousand	**21 293**	39 568

Employee benefit expense

The average number of employees in Hydro for 2016 and 2015 was 12,924 and 13,136, respectively. As of year end 2016 and 2015, Hydro employed 12,911 and 12,870 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	**2016**	2015
Salary	**7 407**	7 001
Social security costs	**1 183**	1 128
Other benefits	**316**	291
Pension expense (note 36)	**579**	627
Total	**9 485**	9 048

Note 18 - Depreciation and amortization expense

Specification of depreciation and amortization by asset category

Amounts in NOK million	**2016**	2015
Buildings	**790**	795
Machinery and equipment	**4 146**	4 133
Intangible assets	**105**	97
Depreciation and amortization expense	**5 041**	5 024

Note 19 - Impairment of non-current assets

Amounts in NOK million	**2016**	2015
Classification by asset category		
Impairment losses		
Property, plant and equipment	**428**	-
Intangible assets	**5**	(1)
Total impairment of non-current assets	**433**	(1)

Amounts in NOK million	**2016**	2015
Classification by segment		
Impairment losses		
Bauxite & Alumina	**294**	-
Rolled Products	**-**	-
Primary Metal	**(6)**	-
Metal Markets	**-**	-
Energy	**5**	(1)
Other activities	**140**	-
Total impairment of non-current assets	**433**	(1)

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. 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 9.00 and 17.25 percent (2015: 8.75-18.5 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 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.

Goodwill is allocated to CGUs or groups of CGUs as shown in the following table:

Amounts in NOK million	**2016**	2015
Bauxite & Alumina Operations	**2 740**	2 325
Remelters sector (Metal Markets)	**396**	408
Total goodwill	**3 135**	2 734

Goodwill in Bauxite & Alumina was 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 67 billion. The value significantly exceeds the carrying value of NOK 30 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 2016 values, to which the test is sensitive are shown in the table below:

	Assumptions	
	2017	Long-term
Exchange rate BRL/USD	3.40	3.42
Alumina price (USD/mt)	286	330
Production volume alumina (million mt)	6.3	6.6
Discount rate nominal, pre-tax	17.25%	17.25%

Significant cash flows are denominated in US dollars. These are translated to BRL at a rate of 3.40 for 2017 with an increase to a nominal rate of 4.31 in 2024, equal to a real exchange rate of 3.42. For future periods the exchange rate is projected with a rate development reflecting the inflation difference of 1.5 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 2016 assumptions over the entire 40-year period:

	% change	Value
Exchange rate BRL/USD	(33%)	2.30
Alumina price (USD/mt)	(23%)	254
Production volume alumina (million mt)	(33%)	4.4
Discount rate (% point)	75%	30.25%

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 2016 we identified impairment indicators for two of Primary Metal's smelters, the Husnes smelter in Norway, and the Slovak smelter Slovalco. Both were also tested in 2015. The recoverable amount for the smelters were 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 CO_2 compensation to energy intensive industry is assumed. 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, has been assessed for remediation need and future use. 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 2015 we identified impairment indicators for Primary Metal's smelters that have US dollars or Norwegian kroner as their functional currencies. Observed sales prices for aluminium and expected sales prices in the next three to five years had deteriorated, partly offset by cost reductions. The Slovakian smelter Slovalco and our smelters in Norway were tested for impairment at the end of 2015 based on this indicator. In addition, our share in the joint operation Tomago in Australia and our share in the jointly owned smelter Alouette in Canada were tested. Rolled Products' Neuss smelter, having Euro as its functional currency, was also determined to have an impairment indicator. In total smelters with a carrying value equivalent to NOK 11 billion were tested for potential impairment.

The recoverable amount for all the smelters were determined as the VIU based on Hydro's internal assumptions for aluminium prices, raw material prices including energy, and currency exchange rates. None of the smelters were considered impaired, as the recoverable amount exceeded the carrying amount for all CGUs. Coverage was limited for the Slovalco smelter, about 20 percent of the carrying amount. The tests were sensitive to changes in aluminium prices, variable cost and discount rate. All other smelters tested had a significant coverage, varying from about 70 percent of carrying amount to about the double of their carrying amount.

In addition certain assets were written down as impaired due to physical damage or obsolescence both in 2016 and 2015.

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 370 million in 2016 and NOK 330 million in 2015. 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 is 70 percent completed and included in the balance sheet item Property, Plant and Equipment with NOK 2,184 million at the end of 2016. 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 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 18 million in 2016 and NOK 21 million in 2015.

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 2016	144	368	253	766
Operating lease obligation 2015	194	574	1 119	1 887

Operating lease expense for office space, machinery and equipment amounts to NOK 202 million for 2016 and NOK 347 million for 2015.

Note 22 - Financial income and expense

Amounts in NOK million	2016	2015
Interest income	468	279
Dividends received and net gain (loss) on securities	105	18
Financial income	574	297
Interest expense	(362)	(337)
Capitalized interest	97	34
Net foreign exchange gain (loss)	2 266	(4 397)
Accretion	(409)	(404)
Other	(41)	(26)
Financial expense	1 552	(5 130)
Financial income (expense), net	2 126	(4 834)

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	2016	2015
Income before tax		
Norway	4 627	2 005
Other countries	4 510	1 420
Total	9 137	3 425
Current taxes		
Norway	690	563
Other countries	1 297	850
Current income tax expense	1 988	1 414
Deferred taxes		
Norway	100	510
Other countries	464	(831)
Deferred tax expense (benefit)	563	(321)
Total income tax expense (benefit)	2 551	1 092

Components of deferred taxes

Origination and reversal of temporary differences	(434)	409
Change in deferred tax asset from tax loss carryforwards	709	351
Net change in unrecognized deferred tax assets	288	(690)
Tax (expense) benefit allocated to Other comprehensive income	(1)	(391)
Deferred tax expense (benefit)	563	(321)

Reconciliation of tax expense to Norwegian nominal statutory tax rate

Amounts in NOK million	**2016**	2015
Expected income taxes at statutory tax rate [1)]	**2 284**	925
Hydro-electric power surtax [2)]	**554**	535
Equity accounted investments	**(246)**	(138)
Foreign tax rate differences	**305**	(45)
Reimbursement of tax related to tax case [3)]	**(602)**	-
Tax free income	**(209)**	(64)
Deferred tax asset not recognized and expired tax loss carryforwards	**221**	(294)
Other tax benefits and deductions with no tax benefits, net	**243**	173
Income tax expense (benefit)	**2 551**	1 092

1) Norwegian nominal statutory tax rate is 25 percent. It is changed to 24 percent from 2017.

2) A surtax of 33 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 34.3 percent from 2017.

3) The Norwegian Tax Appeal Board has in 2016 ruled in favor of Hydro in a tax dispute. Losses on refinancing of subsidiaries in 2008 were denied deduction for tax purposes in 2013 and the related tax claim was paid in 2014. Following the decision in the Tax Appeal Board in 2016, Hydro has recognized NOK 602 million in reduced tax expense and approximately NOK 100 million in interest income. Hydro received the reimbursement in the second quarter of 2016. The tax authorities have notified Hydro that they will ask for a re-examination of the case by the National Tax Board (Riksskattenemnda).

The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of December 31, 2016 and December 31, 2015:

Amounts in NOK million	**Assets 2016**	**Liabilities 2016**	Assets 2015	Liabilities 2015
Inventory valuation	**246**	**(304)**	320	(262)
Accrued expenses	**1 005**	**(293)**	909	(318)
Property, plant and equipment	**5 003**	**(9 554)**	4 606	(9 131)
Intangible assets	**1 052**	**(1 156)**	1 027	(1 057)
Pensions	**2 415**	**(1 078)**	2 366	(921)
Derivatives	**369**	**(120)**	668	(173)
Other	**352**	**(792)**	700	(1 539)
Tax loss carryforwards	**3 536**		3 961	
Subtotal	**13 979**	**(13 296)**	14 557	(13 401)
Of which not recognized as tax asset	**(1 501)**		(1 213)	
Gross deferred tax assets (liabilities)	**12 477**	**(13 296)**	13 344	(13 401)
Net deferred tax assets (liabilities)		**(819)**		(57)

Reconciliation to balance sheets	**2016**	2015
Deferred tax assets	**1 566**	1 943
Deferred tax liabilities	**2 384**	1 999
Net deferred tax assets (liabilities)	**(819)**	(57)

Recognition of net deferred tax asset is based on expected taxable income in the future.

At the end of 2016, Hydro had tax loss carryforwards of NOK 11,279 million, primarily in Brazil, Australia, Switzerland and Spain. None of the losses carry forward expire before 2022. Of the total, NOK 9,612 million is without expiration. Tax assets are recognized for about 70 percent of the tax losses.

Note 24 - Short-term investments

Amounts in NOK million	**2016**	2015
Bank, time deposits	**3 350**	4 550
Equity securities	**312**	292
Debt securities	**756**	793
Other	**194**	117
Total short-term investments	**4 611**	5 752

Note 25 - Trade and other receivables

Amounts in NOK million	**2016**	**2015**
Trade receivables	**8 676**	7 929
VAT and other sales taxes	**1 478**	1 355
Other receivables	**759**	1 545
Allowance for credit losses	**(29)**	(32)
Trade and other receivables	**10 884**	10 797

No significant receivables were past due at the balance sheet dates.

Note 26 - Inventories

Amounts in NOK million	**2016**	2015
Raw materials	**4 430**	4 765
Work in progress	**3 666**	3 260
Finished goods	**4 285**	4 167
Inventories	**12 381**	12 192

Raw materials include spare parts. All amounts are net of any write-downs.

Note 27 - Other non-current assets

Amounts in NOK million	**2016**	2015
Equity securities	**1 132**	1 263
Other securities	**536**	536
Employee loans	**105**	130
Derivative instruments	**47**	204
Prepaid taxes and tax credits	**1 882**	1 981
Other receivables	**607**	500
Other non-current assets	**4 309**	4 614

Note 28 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
Cost					
December 31, 2014	942	21 993	80 863	2 687	106 485
Additions	3	238	2 248	3 017	5 505
Acquisitions through business combinations	20	9	35	-	65
Disposals	(9)	(348)	(2 612)	(28)	(2 996)
Transfers [1]	83	2 343	(1 167)	(1 260)	(1)
Foreign currency translation effect	70	(945)	(3 328)	(315)	(4 518)
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
Accumulated depreciation and impairment					
December 31, 2014	(9)	(9 852)	(40 906)	-	(50 766)
Depreciation for the year	-	(795)	(4 133)	-	(4 928)
Disposals	6	305	2 532	-	2 842
Transfers [1]	-	(253)	253	-	-
Foreign currency translation effect	(2)	(84)	(429)	-	(515)
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)
Carrying value					
December 31, 2015	1 105	12 612	33 355	4 101	51 174
December 31, 2016	1 055	13 414	37 719	6 545	58 734

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 879 million, which are mainly included in Machninery 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, 2014	176	924	329	1 058	1 281	1 069	4 836
Additions	59	-	-	131	-	46	236
Acquisitions through business combinations	-	-	-	1	-	10	10
Disposals	-	-	(190)	(247)	-	(129)	(566)
Transfers	(2)	-	-	2	-	-	-
Foreign currency translation effect	-	(177)	-	(5)	(245)	(13)	(440)
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
Accumulated amortization and impairment							
December 31, 2014	-	-	(190)	(856)	(346)	(673)	(2 066)
Amortization for the year [1)]	-	-	-	(77)	(76)	(20)	(173)
Reversal of impairment loss	-	-	-	-	-	1	1
Disposals	-	-	190	210	-	120	520
Foreign currency translation effect	-	-	-	(16)	69	(25)	28
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)
Carrying value							
December 31, 2015	233	747	139	200	682	386	2 388
December 31, 2016	289	880	139	226	729	412	2 675

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	Bauxite & Alumina	Metal Markets	Total
Cost			
December 31, 2014	2 875	301	3 177
Acquisitions through business combinations	-	49	49
Foreign currency translation effect	(550)	58	(492)
December 31, 2015	2 325	408	2 734
Foreign currency translation effect	414	(13)	402
December 31, 2016	2 740	396	3 135

See note 19 Impairment of non-current assets for information about the annual impairment testing of goodwill.

Note 31 - Investments in joint arrangements

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 is also engaged in one major downstream joint venture, Sapa. 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 9,346 million in 2016 and NOK 10,812 million in 2015 . Related payables amount to NOK 1,017 million at the end of 2016 and NOK 1,035 million at the end of 2015. Sales from Hydro to Qatalum amounted to NOK 1,892 million in 2016 and NOK 2,201 million in 2015, primarily alumina. Related receivables amounted to NOK 337 million and NOK 128 million at the end of the periods. Qatalum is part of Primary Metal.

An impairment test was performed for the only CGU in Qatalum at the end of 2015 following the weakening aluminium market. Method and assumptions were largely the same as for Hydro's smelters, see note 19 Impairment of non-current assets. The recoverable amount exceeded the carrying value by about 30 percent. The test is sensitive to changes in aluminium prices, variable cost and discount rate.

Sapa AS is a world leader in aluminium solutions established September 1, 2013 by Hydro and Orkla ASA, a listed company in Norway. Hydro issued certain guarantees towards Sapa as part of establishing the company, primarily related to tax exposure. A provision of about NOK 100 million is recognized for these guarantees. Sapa delivers products within extrusions, building systems and precision tubing and employs around 22,400 people in more than 40 countries. The company's headquarter is located in Oslo, Norway. Sapa is owned 50/50 by Hydro and Orkla. Hydro sells metal products to Sapa at market prices. Sales from Hydro to Sapa amounted to NOK 4,650 million in 2016 and NOK 5,314 million in 2015. Hydro's accounts receivables amounted to NOK 616 million and NOK 689 million at the end of 2016 and 2015, respectively. Sapa is a separate reporting segment.

Sapa has several CGUs, and identified impairment indicators for some of those both in 2016 and 2015. Recognized impairments mainly related to closed, divested and significantly restructured units.

Sapa Profiles Inc. (SPI), a Portland, Oregon based subsidiary of 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 extrusion 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 on Sapa, 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.

The table below summarizes key figures for these joint ventures for 2016 and 2015. 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.

	Qatalum		Sapa	
Amounts in NOK million	**2016**	2015	**2016**	2015
Revenue	**9 577**	11 031	**53 327**	55 252
Depreciation, amortization and impairment	**2 284**	2 240	**1 319**	1 321
Earnings before financial items and tax	**687**	1 257	**2 420**	528
Financial income (expense), net [1)]	**(495)**	(478)	**(52)**	(280)
Income tax expense	**-**	-	**(583)**	4
Net income (loss)	**192**	779	**1 785**	251
Other comprehensive income	**210**	181	**(857)**	1 082
Total comprehensive income	**403**	960	**928**	1 333
Cash and cash equivalents	**3 054**	3 430	**671**	2 512
Other current assets	**4 160**	4 016	**12 546**	12 829
Non-current assets	**34 451**	36 725	**12 722**	13 529
Current financial liabilities	**1 385**	1 036	**863**	1 596
Non-current financial liabilities	**15 516**	17 075	**124**	3 084
Other liabilities	**1 843**	1 503	**11 152**	11 318
Net assets	**22 921**	24 558	**13 801**	12 871
Hydro's share of net assets	**11 461**	12 279	**6 873**	6 411
Goodwill in Hydro's investment	**-**	-	**1 526**	1 526
Carrying value of Hydro's equity investment	**11 461**	12 279	**8 399**	7 937
Loans extended to joint ventures	**-**	-	**-**	-
Total investment	**11 461**	12 279	**8 399**	7 937

1) Financial income (expense), net includes interest expense for Qatalum with NOK 481 million and NOK 455 million for 2016 and 2015, respectively. Interest expense for Sapa is included with NOK 183 million and NOK 249 million for 2016 and 2015, respectively.

Amounts in NOK million	Qatalum	Sapa	Other	Total
December 31, 2014	10 799	7 276	(12)	18 062
Hydro's share of net income (loss)	390	123		513
Hydro's share of other comprehensive income	90	538		628
Dividends and other payments received by Hydro	(1 037)			(1 037)
Foreign currency translation and other	2 036			2 036
Changes elimination of internal gain in inventory	(57)	(24)		(81)
December 31, 2015	12 222	7 913	(12)	20 122
Hydro's share of net income (loss)	96	889	13	999
Hydro's share of other comprehensive income	105	(427)		(322)
Dividends and other payments received by Hydro	(836)			(836)
Foreign currency translation and other	(184)			(184)
Changes elimination of internal gain in inventory	17	(1)		16
December 31, 2016	11 421	8 374	-	19 795

Hydro also holds interests in certain associates accounted for using the equity method. The carrying value of associates as of the end of 2016 and 2015 were NOK 12 million and NOK 15 million, respectively.

Note 32 - Trade and other payables

Amounts in NOK million	**2016**	2015
Accounts payable	**7 439**	6 907
Payroll and value added taxes	**1 357**	1 293
Accrued liabilities and other payables	**1 311**	1 175
Trade and other payables	**10 108**	9 375

Note 33 - Short and long-term debt

Amounts in NOK million	**2016**	2015
Bank loans and overdraft facilities	**2 510**	1 275
Other interest-bearing short-term debt	**294**	345
Current portion of long-term debt	**479**	1 943
Bank loans and other interest-bearing short-term debt	**3 283**	3 562

Amounts in NOK million	**2016**	2015
USD	**1 305**	3 667
NOK	**1 500**	1 500
Total unsecured loans	**2 805**	5 167
Finance lease obligations	**1 071**	745
Outstanding debt	**3 875**	5 912
Less: Current portion	**(479)**	(1 943)
Total long-term debt	**3 397**	3 969

Repayments of long-term debt including interest

Amounts in NOK million	Unsecured loans	Other	Interest	Total
2017	440	39	177	656
2018	286	41	169	496
2019	1 788	40	159	1 987
2020	291	40	72	403
2021	-	40	62	102
Thereafter	-	871	458	1 329
Total	2 805	1 071	1 097	4 973

Norsk Hydro ASA has a USD 1,700 million, revolving multi-currency credit facility with a syndicate of international banks, maturing in November 2020. A commitment fee on undrawn amounts is calculated as a percentage of the loan margin under the facility. Any borrowing under the facility will be unsecured, and the debt agreement contains no financial ratio covenants and no provisions connected to the value of underlying assets. The facility is for general corporate purposes, and provide readily available and flexible long-term funding. There was no borrowing under the facility as of December 31, 2016.

Note 34 - Provisions

		2016			2015	
Amounts in NOK million	**Short-term**	**Long-term**	**Total**	Short-term	Long-term	Total
Environmental clean-up and asset retirement obligations (ARO)	**532**	**3 197**	**3 730**	143	2 198	2 340
Employee benefits	**552**	**446**	**998**	548	422	969
Unfavorable contracts and onerous contracts	**100**	**310**	**410**	101	401	503
Other	**232**	**431**	**663**	355	243	599
Total provisions	**1 417**	**4 384**	**5 801**	1 147	3 264	4 411

The following table includes a specification of changes to provisions for the year ending December 31, 2016 and the expected timing of cash outflows relating to the provisions.

Amounts in NOK million	Environ-mental clean-up and ARO	Employee benefits	Contracts	Other	Total
Specification of change in provisions					
December 31, 2015	2 340	969	503	599	4 411
Additions	1 106	620	-	388	2 114
Used during the year	(144)	(587)	(101)	(217)	(1 049)
Reversal of unused provisions	(13)	(15)	-	(156)	(184)
Accretion expense and effect of change in discount rate	306	9	9	-	324
Foreign currency translation	134	1	-	49	185
December 31, 2016	3 730	998	410	663	5 801
Timing of cash outflows					
2017	532	552	100	232	1 417
2018-2021	1 412	221	310	222	2 165
Thereafter	1 785	225	-	210	2 219
	3 730	998	410	663	5 801

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. The plan for remediation is not yet approved by the authorities. 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.

Contracts comprise onerous contracts and unfavorable contracts. Onerous contracts 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.

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 4.1 billion, of which about NOK 2.5 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, 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. Obligations for historic contamination of sites and surrounding areas in addition to areas provided for may be identified and deemed Hydro's responsibility. The cost of remediation of any additional contamination deemed Hydro's responsible is uncertain.

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 offers retirement plans that cover the majority of the employees. Plans and benefit levels vary between companies and countries. The majority of Hydro's employees are employed in Brazil, Germany and Norway. In Brazil, Hydro provides defined contribution plans. In Germany, the majority of employees are covered by unfunded defined benefit plans that offer benefits based on final salary level and the number of years in service. In Norway, the employees are either covered by defined contribution plans or funded defined benefit plans, together with unfunded complementary defined benefit plans. Defined benefit plans are also offered in certain other countries with a limited number of participants including Canada, the UK and the US. The plans provide cash pension payment, for the majority of members such payments are life-long. A limited postemployment medical plan exists in Canada.

	2016				2015			
Amounts in NOK million	**Norway**	**Germany**	**Other**	**Total**	Norway	Germany	Other	Total
Pension expense								
Defined benefit plans	**145**	**163**	**(3)**	**305**	164	164	3	331
Defined contribution plans	**86**	**-**	**41**	**127**	80	-	44	124
Multiemployer plans	**49**	**-**	**2**	**51**	55	-	2	57
Termination benefits and other	**29**	**(5)**	**27**	**51**	58	2	14	74
Social security cost	**46**	**-**	**-**	**46**	41	-	-	41
Pension expense	**355**	**158**	**67**	**579**	398	166	63	627
Interest expense (income)	**18**	**176**	**16**	**210**	28	164	23	215
Remeasurement (gain) loss in other comprehensive income	**(764)**	**596**	**1**	**(168)**	(609)	(498)	(1)	(1 109)

	2016				2015			
Amounts in NOK million	**Norway**	**Germany**	**Other**	**Total**	Norway	Germany	Other	Total
Recognized defined benefit assets and liability								
Defined benefit obligation major plans	**(12 495)**	**(8 327)**	**(102)**	**(20 924)**	(13 044)	(8 116)	(92)	(21 252)
Plan assets	**12 624**	**-**	**102**	**12 727**	12 298	-	108	12 406
Reimbursement rights	**311**	**-**	**-**	**311**	325	-	-	325
Liability other plans	**(16)**	**(28)**	**(221)**	**(265)**	(57)	(40)	(248)	(345)
Social security cost	**(524)**	**-**	**-**	**(524)**	(533)	-	-	(533)
Net defined benefit liability	**(100)**	**(8 355)**	**(220)**	**(8 676)**	(1 012)	(8 156)	(232)	(9 400)
Recognized prepaid pension	**4 149**	**45**	**1**	**4 195**	3 317	49	16	3 382
Recognized pension liability	**(4 249)**	**(8 401)**	**(221)**	**(12 871)**	(4 329)	(8 205)	(248)	(12 782)
Net amount recognized	**(100)**	**(8 355)**	**(220)**	**(8 676)**	(1 012)	(8 156)	(232)	(9 400)

Other plans include some minor plans in various entities and countries, including some early retirement benefits in Norway. These plans may be funded or unfunded. None of these plans are considered material, neither individually nor combined.

Amounts in NOK million	2016 Norway	Germany	Other	Total	2015 Norway	Germany	Other	Total
Change in defined benefit obligation (DBO)								
Opening Balance	**(13 044)**	**(8 116)**	**(92)**	**(21 252)**	(13 278)	(8 040)	(87)	(21 405)
Current service cost	**(139)**	**(163)**	**(1)**	**(302)**	(152)	(164)	(4)	(319)
Past service cost and curtailment gain (loss)	**-**	**-**	**4**	**4**	-	-	-	-
Interest expense	**(330)**	**(176)**	**(3)**	**(509)**	(292)	(164)	(3)	(459)
Actuarial gain (loss) demographic assumptions	**-**	**-**	**-**	**-**	-	-	1	1
Actuarial gain (loss) economic assumptions	**199**	**(606)**	**(29)**	**(435)**	278	513	9	800
Experience gain (loss)	**77**	**11**	**-**	**88**	(161)	(15)	1	(175)
Benefit payments	**626**	**268**	**2**	**896**	617	257	2	876
Termination benefits	**(64)**	**-**	**-**	**(64)**	(57)	-	-	(57)
Settlements	**60**	**-**	**-**	**60**	-	-	-	-
Divestments	**119**	**-**	**-**	**119**	-	-	-	-
Foreign currency translation	**-**	**456**	**17**	**473**	-	(503)	(11)	(514)
Closing Balance	**(12 495)**	**(8 327)**	**(102)**	**(20 924)**	(13 044)	(8 116)	(92)	(21 252)
Change in pension plan assets								
Opening Balance	**12 298**	**-**	**108**	**12 406**	11 951	-	94	12 045
Interest income	**317**	**-**	**4**	**321**	269	-	3	272
Return on plan assets above (below) interest income	**473**	**-**	**11**	**484**	474	-	(2)	471
Contributions to plans	**145**	**-**	**1**	**146**	88	-	3	91
Benefit payments	**(481)**	**-**	**(2)**	**(483)**	(483)	-	(2)	(485)
Settlements	**(60)**	**-**	**-**	**(60)**	-	-	-	-
Divestments	**(68)**	**-**	**-**	**(68)**	-	-	-	-
Foreign currency translation	**-**	**-**	**(20)**	**(20)**	-	-	12	12
Closing Balance	**12 624**	**-**	**102**	**12 726**	12 298	-	108	12 406

Amounts in NOK million	2016 Norway	Germany	Other	Total	2015 Norway	Germany	Other	Total
Analysis of the defined benefit obligation (DBO)								
Active members	**(3 414)**	**(4 173)**	**-**	**(7 587)**	(3 779)	(3 897)	(47)	(7 724)
Deferred members	**(681)**	**(598)**	**(75)**	**(1 354)**	(698)	(592)	(16)	(1 306)
Pensioners	**(8 400)**	**(3 555)**	**(27)**	**(11 983)**	(8 567)	(3 627)	(29)	(12 223)
Defined benefit obligation	**(12 495)**	**(8 327)**	**(102)**	**(20 924)**	(13 044)	(8 116)	(92)	(21 252)
Weighted average duration (years)	**13.1**	**18.8**			13.5	18.1		

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 850 million for 2016 and about NOK 750 million for 2015. Hydro's cash impact is expected to be at a somewhat higher level over the next 3-5 years.

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.

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 (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.

Significant actuarial assumptions for the main Norwegian defined benefit plans include:

Assumptions	**Benefit obligation 2016**	**Benefit expense 2016**	Benefit obligation 2015	Benefit expense 2015
Discount rate	**2.50%**	**2.60%**	2.60%	2.25%
Expected salary increase	**2.25%**	**2.25%**	2.25%	2.25%
Expected pension increase	**1.00%**	**1.25%**	1.25%	1.00%
Mortality basis	**K2013**	**K2013**	K2013	K2013

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	2016	2016
Discount rate increase 0.5% point	6.2%	775
Salary increase 0.5% point	(1.3%)	(160)
Pension increase 0.5% point	(6.1%)	(758)
One year longer life all members	(4.2%)	(528)

The plan assets in the funded plans provided through Norsk Hydros Pensjonskasse were invested as follows at the end of 2016 and 2015:

Amounts in NOK million, except percent	**2016**	**2016**	2015	2015
Cash and cash equivalents	**3.5%**	**434**	1.5%	179
Equity instruments Norway	**20.2%**	**2 493**	17.2%	2 060
Equity instruments other countries	**17.6%**	**2 170**	17.1%	2 048
Debt instruments	**32.3%**	**3 980**	36.2%	4 351
Investment funds	**6.7%**	**822**	7.8%	939
Real estate	**19.8%**	**2 440**	20.2%	2 428
Total	**100.0%**	**12 340**	100.0%	12 005

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 European unlisted companies across various industries, 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:

Weighted-average assumptions	**Benefit obligation 2016**	**Benefit expense 2016**	Benefit obligation 2015	Benefit expense 2015
Discount rate	**1.6%**	**2.3%**	2.3%	2.1%
Expected salary increase	**2.4%**	**2.8%**	2.8%	2.8%
Expected pension increase	**1.5%**	**1.7%**	1.7%	2.0%
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 Amounts in NOK million, except percent	2016	2016
Discount rate increase 0.5% point	8.0%	669
Salary increase 0.5% point	(2.2%)	(183)
Pension increase 0.5% point	(6.4%)	(534)
One year longer life all members	(4.0%)	(331)

Note 37- Shareholders' equity

Share capital

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
December 31, 2014	2 068 998 276	(29 165 988)	2 039 832 288
Treasury shares reissued to employees		1 755 404	1 755 404
December 31, 2015	2 068 998 276	(27 410 584)	2 041 587 692
Treasury shares reissued to employees		1 306 424	1 306 424
December 31, 2016	2 068 998 276	(26 104 160)	2 042 894 116

The share capital of Norsk Hydro ASA as of December 31, 2016 and 2015 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, 2016 of NOK 870 million was comprised of NOK 29 million share capital and NOK 841 million retained earnings.

Change in Other components of equity

The table below specifies the changes in Other components of equity for 2016 and 2015.

Amounts in NOK million	**2016**	2015
Items that will not be reclassified to income statement:		
Remeasurement postemployment benefits		
January 1	**(140)**	(903)
Remeasurement postemployment benefits during the year	**168**	1 109
Reclassified to retained earnings on sale of subsidiaries	**(23)**	-
Deferred tax offset	**16**	(345)
December 31	**22**	(140)
Remeasurement postemployment benefits equity accounted investments		
January 1	**30**	(96)
Remeasurement postemployment benefits during the year	**(41)**	126
December 31	**(11)**	30
Items that will be reclassified to income statement:		
Currency translation differences		
January 1	**(4 581)**	(2 451)
Currency translation differences during the year	**4 114**	(2 111)
Reclassified to Net income on sale of foreign operations	**-**	(20)
December 31	**(467)**	(4 581)
Unrealized gain (loss) on securities		
January 1	**62**	47
Unrealized gain on available-for-sale securities	**(71)**	23
Tax expense	**25**	(8)
December 31	**16**	62
Cash flow hedges - See note 14 Derivative instruments and hedge accounting		
January 1	**(273)**	(345)
Period gain (loss) recognized in Other comprehensive income	**39**	117
Reclassification of hedging gain (loss) to Net income	**117**	(6)
Tax expense	**(41)**	(38)
December 31	**(158)**	(273)
Other components of equity in equity accounted investments		
January 1	**1 050**	547
Period gain recognized in Other comprehensive income	**(272)**	506
Reclassified to Net income	**(9)**	(3)
December 31	**769**	1 050
Total other components of equity attributable to Hydro shareholders as of December 31	**1 224**	(2 107)
Total other components of equity attributable to non-controlling interests as of December 31	**(1 055)**	(1 745)

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 2,042,481,930 for 2016 and 2,041,000,645 for the year 2015.

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. During 2016 net cash provided by continuing operations was more than sufficient to cover operating requirements and capital expenditures as well as dividend payments.

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 of at least 40 percent of Adjusted net debt, and an Adjusted net 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 2016, NOK 2.6 billion of Hydro's cash position of NOK 8.0 billion was outside such group arrangements, mainly in Brazil and Slovakia.

Hydro has an ambition to access national and international capital markets as primary sources for external long-term funding. Hydro made no capital market transactions in 2016.

Hydro has a syndicated USD 1,700 million revolving credit facility maturing in 2020. The facility was fully undrawn as of December 31, 2016.

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 stable or increasing dividends per share, with a longer-term policy to distribute an average of 40 percent of net income in the form of ordinary dividends over the business cycle. 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 stability. 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. The methodology has been simplified compared to previous years, making it more transparent and more easily reconciled with external definitions. The Funds from operations to Adjusted net cash (debt) ratio for 2015 has been restated accordingly.

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	**2016**	2015
Cash and cash equivalents	**8 037**	6 917
Short-term investments	**4 611**	5 752
Bank loans and other interest-bearing short-term debt	**(3 283)**	(3 562)
Long-term debt	**(3 397)**	(3 969)
Net cash (debt)	**5 969**	5 138
Cash and cash equivalents and short-term investments in captive insurance company [1)]	**(1 103)**	(1 129)
Net pension obligation at fair value, net of expected income tax benefit [2)]	**(7 338)**	(7 955)
Operating lease commitments, net of expected income tax benefit [3)]	**(507)**	(1 187)
Short- and long-term provisions net of expected income tax benefit, and other liabilites [4)]	**(2 619)**	(3 040)
Adjusted net cash (debt)	**(5 598)**	(8 173)
Net debt in EAI [5)]	**(6 887)**	(8 011)
Adjusted net cash (debt) including EAI	**(12 485)**	(16 184)

Adjusted net cash (debt) including EAI / Equity

Total equity	**(87 640)**	(79 329)
Adjusted net cash (debt) including EAI / Equity	**0.14**	0.20

Funds from operations / Adjusted net cash (debt) including EAI

Amounts in NOK million, except ratio	**2016**	2015
Net income (loss)	**6 586**	2 333
Depreciation, amortization and impairment	**5 474**	5 023
Deferred taxes	**563**	(321)
Loss (gain) on sale of non-current assets	**(226)**	422
Net foreign exchange (gain) loss	**(2 266)**	4 397
Capitalized interest	**(97)**	(34)
Commodity derivatives	**(29)**	(71)
Hydro's share of depreciation, amortization and impairment in EAI	**1 802**	1 781
Funds from operations	**11 807**	13 530
Funds from operations / Adjusted net cash (debt) including EAI	**0.95**	0.84

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 debt.
2) The expected income tax benefit related to the net pension liability is NOK 1,338 million and NOK 1,445 million, respectively, for 2016 and 2015.
3) Operating lease commitments are discounted using a rate of 1.29 percent and 1.33 percent for 2016 and 2015, 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. Currently, the adjustment is related to Qatalum and 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 2016 the Board of Directors has proposed a dividend of NOK 1.25 per share to be paid in May 2017. The Annual General Meeting, scheduled to be held May 3, 2017, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 2,554 million. In accordance with IFRS, the fiscal year 2016 proposed dividend is not recognized as a liability in the 2016 financial statements.

Dividends declared and paid in 2016 and 2015 for the prior fiscal year, respectively, are as follows:

	Paid in 2016 for fiscal year 2015	Paid in 2015 for fiscal year 2014
Dividend per share paid, NOK	**1.00**	1.00
Total dividends paid, NOK million	**2 043**	2 042
Date proposed	**February 16, 2016**	February 10, 2015
Date approved	**May 2, 2016**	May 6, 2015
Dividend payment date	**May 12, 2016**	May 18, 2015

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	2017	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	2 314	86	2 400
Additional authorized future investments in property, plant and equipment	1 528	594	2 122
Contract commitments for other future investments	25	-	25
Total	3 867	681	4 548

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, 2016 are shown in the table below:

Amounts in NOK million	Bauxite, alumina and aluminium	Energy related	Other	Sales commit-ments
2017	7 490	10 131	2 433	(16 249)
2018	6 294	8 818	2 376	(11 025)
2019	5 375	6 228	1 791	(7 318)
2020	5 381	5 671	1 156	(5 219)
2021	4 698	4 348	781	(4 058)
Thereafter	25 149	29 452	9 861	(19 458)
Total	54 387	64 648	18 398	(63 328)

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 2017 and 12.7 TWh in total. Commitments relating to concession power from stations that are not subject to reversion have an annual volume of 249 GWh.

Hydro also has contractual commitments for the sales and purchase of products from part-owned entities, see note 31 Investments in joint arrangements. 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

Reconciliation of cash and cash equivalents

Amounts in NOK million	**2016**	2015
Cash and cash equivalents	**8 037**	6 917
Bank overdraft	**(1)**	-
Cash, cash equivalents and bank overdraft	**8 037**	6 917

Cash disbursements and receipts included in cash from operations

Amounts in NOK million	**2016**	2015
Income taxes paid	**1 110**	1 779
Interest paid	**379**	338
Interest received	**468**	279
Dividends received from available-for-sale investments	**87**	10

In 2016 and 2015, non-cash investing activities for asset retirement costs amounted to NOK 953 million and NOK 290 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.

The following table shows fees to KPMG for 2016 and 2015. For all categories the reported fee is the recognized expense for the year.

Amounts in NOK million	Audit [1)]	Audit related	Other services [2)]	Tax related	Total
2016					
Norway	12	1	2	-	15
Outside Norway	12	-	-	1	13
Total	24	1	2	1	28
2015					
Norway	12	-	1	-	14
Outside Norway	12	-	-	-	12
Total	25	1	1	-	27

1) Audit includes audit fee to other auditors than KPMG for one subsidiary.

2) Other services mainly include KPMG's review of viability performance.

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Amounts in NOK million	Notes	**2016**	2015
Revenue		**316**	231
Gain (loss) on sale of subsidiaries, net	7	**304**	57
Total operating income		**619**	288
Employee benefit expense	2, 3	**436**	333
Depreciation and impairment	4	**19**	22
Other		**182**	627
Total operating expenses		**637**	982
Operating loss		**(17)**	(694)
Financial income, net	5	**8 654**	3 387
Income before tax		**8 637**	2 693
Income taxes	6	**477**	(314)
Net income		**9 114**	2 379
Appropriation of net income and equity transfers			
Dividend proposed		**2 554**	2 042
Retained earnings		**6 560**	337
Total appropriation		**9 114**	2 379

The accompanying notes are an integral part of the financial statements.

Amounts in NOK million, December 31	Notes	**2016**	2015
Assets			
Property, plant and equipment and intangible assets	4	**205**	207
Shares in subsidiaries	7	**57 063**	56 573
Receivables from subsidiaries		**11 727**	17 367
Financial derivatives subsidiaries	10	**157**	273
Prepaid pension, investments and other non-current assets	2, 9	**4 261**	3 771
Total financial non-current assets		**73 208**	77 984
Receivables from subsidiaries		**8 207**	2 698
Prepaid expenses and other current assets	10	**86**	228
Short-term investments		**3 350**	4 550
Cash and cash equivalents		**5 442**	4 947
Total current assets		**17 085**	12 423
Total assets		**90 498**	90 614
Equity and liabilities			
Paid-in capital			
Share capital	13	**2 272**	2 272
Treasury shares	13	**(29)**	(30)
Paid-in premium	13	**28 987**	28 987
Other paid-in capital	13	**82**	81
Retained earnings			
Retained earnings	13	**33 938**	27 057
Treasury shares	13	**(841)**	(883)
Equity	13	**64 409**	57 484
Long-term provisions	2, 9	**3 302**	3 463
Long-term debt	12	**2 365**	2 663
Payables to subsidiaries		**230**	7 152
Other long-term liabilities		**2 595**	9 815
Bank loans and other interest-bearing short-term debt		**578**	586
Dividends payable		**2 554**	2 042
Payables to subsidiaries		**16 287**	16 553
Other current liabilities		**773**	670
Total current liabilities		**20 192**	19 851
Total equity and liabilities		**90 498**	90 614

The accompanying notes are an integral part of the financial statements.

Statements of cash flows

Amounts in NOK million	**2016**	2015
Net income	**9 114**	2 379
Depreciation and impairment	**19**	22
Net foreign exchange gain	**(509)**	(1 236)
Changes in receivables and payables, and other items	**(5 087)**	1 098
Net cash provided by operating activities	**3 537**	2 263
Purchases of short-term investments	**(4 650)**	(5 050)
Proceeds from sales of short-term investments	**5 850**	1 000
Net sales of other investments	**463**	148
Net cash provided by (used in) investing activities	**1 663**	(3 902)
Dividends paid	**(2 043)**	(2 042)
Proceeds from shares issued	**24**	35
Other financing activities, net	**(2 662)**	1 010
Net cash used in financing activities	**(4 681)**	(997)
Foreign currency effects on cash	**(23)**	213
Net increase (decrease) in cash and cash equivalents	**496**	(2 423)
Cash and cash equivalents at beginning of year	**4 947**	7 370
Cash and cash equivalents at end of year	**5 442**	4 947

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 and financial instruments, 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

Realized and unrealized currency gains or losses on transactions denominated in other currencies than Norwegian kroner, 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 CO_2 emission allowances at cost as an intangible asset. The emission rights are not amortized, impairment testing is done on an annual basis. Sale of CO_2 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	**2016**	2015
Defined benefit plans	**37**	43
Defined contribution plans	**8**	7
Multiemployer plans	**3**	3
Termination benefits and other	**4**	8
Social security cost	**9**	9
Pension expense	**61**	69
Interest expense (income)	**(21)**	(10)
Remeasurement (gain) loss directly to equity	**(422)**	(274)

Recognized defined benefit assets and liability

Amounts in NOK million	**2016**	2015
Defined benefit obligation major plans	**(5 205)**	(5 402)
Plan assets	**6 369**	6 050
Reimbursement rights	**311**	325
Liability other plans	**-**	(3)
Social security cost	**(298)**	(301)
Net defined benefit asset	**1 176**	669
Recognized prepaid pension	**3 590**	3 106
Recognized pension liability	**(2 414)**	(2 437)
Net amount recognized	**1 176**	669

Change in defined benefit obligation (DBO)

Amounts in NOK million	**2016**	2015
Opening Balance	**(5 402)**	(5 599)
Current service cost	**(36)**	(41)
Interest expense	**(137)**	(122)
Actuarial gain (loss) economic assumptions	**81**	101
Experience gain (loss)	**(20)**	(46)
Benefit payments	**313**	313
Terminations benefits	**(7)**	(7)
Settlements	**2**	-
Closing Balance	**(5 205)**	(5 402)

Change in pension plan assets

Amounts in NOK million	2016	2015
Opening Balance	**6 050**	5 900
Interest income	**158**	132
Return on plan assets above (below) interest income	**358**	219
Contributions to plans	**27**	25
Benefit payments	**(219)**	(226)
Settlements	**(4)**	-
Closing Balance	**6 369**	6 050

Analysis of the defined benefit obligation (DBO)

Amounts in NOK million	2016	2015
Active members	**(1 061)**	(1 144)
Deferred members	**(402)**	(414)
Pensioners	**(3 743)**	(3 844)
Defined benefit obligation	**(5 205)**	(5 402)

Assumptions	**Benefit obligation 2016**	**Benefit expense 2016**	Benefit obligation 2015	Benefit expense 2015
Discount rate	**2.50%**	**2.60%**	2.60%	2.25%
Expected salary increase	**2.25%**	**2.25%**	2.25%	2.25%
Expected pension increase	**1.00%**	**1.25%**	1.25%	1.00%
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 7 million in both 2016 and 2015. Fees for other services were NOK 1 million in both 2016 and 2015.

The average number of employees in Norsk Hydro ASA was 250 in 2016 as compared to 232 in 2015. As of year end 2016 and 2015, Norsk Hydro ASA employed 267 and 233 employees, respectively.

Total loans given by Norsk Hydro ASA to Norwegian employees as of December 31, 2016 were NOK 93 million. Loans to employees consist of NOK 51 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of December 31, 2016 related to the employee share purchase plan was NOK 6 million.

A number of employees in Norsk Hydro ASA are engaged in activities for other Group companies. The cost for these employees is accounted for on a net basis, reducing Employee benefit expense. Payroll related expenses, on a net basis, are provided in the table below.

Amounts in NOK million	**2016**	2015
Employee benefit expense:		
Salaries	**362**	341
Social security costs	**52**	46
Pension expense (note 2)	**61**	69
Internal invoicing of payroll related costs	**(39)**	(123)
Total	**436**	333

Note 4 - Property, plant and equipment and intangible assets

Operating lease expense amounted to NOK 76 million in 2016 and NOK 211 million in 2015. The company has the following future operating lease commitments under non-cancellable leases: 2017: NOK 48 million, 2018: NOK 48 million, 2019: NOK 48 million, 2020: NOK 48 million, 2021: NOK 8 million.

Amounts in NOK million	Property, plant and equipment	Intangible assets	Total
Cost December 31, 2015	457	72	529
Additions at cost	5	26	31
Disposals at cost	(128)	(19)	(147)
Accumulated depreciation and impairment December 31, 2016	(167)	(40)	(207)
Carrying value December 31, 2016	166	39	205
Depreciation and impairment in 2016	(12)	(7)	(19)

Intangible assets mainly consist of software and CO_2 emission rights.

Note 5 - Financial income and expense

Amounts in NOK million	**2016**	2015
Dividends from subsidiaries	**7 721**	2 036
Interest from group companies	**417**	430
Other interest income	**198**	88
Interest paid to group companies	**(42)**	(83)
Other interest expense	**(147)**	(166)
Net foreign exchange gain (loss)	**509**	1 236
Loss on loans to group companies	**(28)**	(179)
Other, net	**26**	25
Financial income, net	**8 654**	3 387

Note 6 - Income taxes

The tax effect of temporary differences resulting in deferred tax assets (liabilities) are:

	Temporary differences Tax effect	
Amounts in NOK million	**2016**	2015
Short-term items	**17**	40
Long-term receivables from subsidiaries	**(321)**	(1 123)
Pensions[1)]	**(282)**	(167)
Long-term debt	**98**	131
Other long-term items	**58**	287
Tax loss carryforwards	**-**	235
Deferred tax assets (liabilities)	**(430)**	(597)

1) Include NOK (100) million and NOK (70) million of tax benefit (expense) allocated directly to equity in 2016 and 2015 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, can be netted.

Reconciliation of tax expense

Amounts in NOK million	**2016**	2015
Income (loss) before taxes	**8 637**	2 693
Expected income taxes at statutory tax rate	**2 159**	727
Dividend exclusion	**(1 911)**	(486)
Effect of tax law change	**(24)**	(20)
Reimbursement of tax related to tax case	**(602)**	-
Permanent differences and other, net	**(99)**	93
Income taxes	**(477)**	314
Components of income taxes		
Current income taxes	**(212)**	62
Change in deferred taxes	**(265)**	252
Income taxes	**(477)**	314

See note 23 Income taxes in the consolidated financial statements for further information.

Taxes payable were NOK 308 million per December 31, 2016 and NOK 181 million per December 31, 2015.

Note 7 - Shares in subsidiaries

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
Herøya Nett AS	Norway	Oslo	100.00	1 760	11
Hydro Kapitalforvaltning AS	Norway	Oslo	100.00	2 500	4
Total					57 063

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, intermediate companies and dormant companies are not included in the list below.

Company name	Country	Location	Ownership
Alumina do Norte do Brasil S. A.	Brazil	Barcarena	92.13
Hydro Aluminium Rolled Products GmbH	Germany	Grevenbrioch	100.00
Mineração Paragominas SA	Brazil	Paragominas	100.00
Alumínio Brasileiro SA	Brazil	Barcarena	51.00
Norsk Hydro North America, Inc.	USA	Baltimore	100.00
Hydro Aluminium Canada & Co. Ltd.	Canada	Montreal	100.00
Slovalco a.s.	Slovakia	Ziar Nad Hronom	55.30
Hydro Aluminium Rolled Products AS	Norway	Holmestrand	100.00
Sør-Norge Aluminium AS	Norway	Husnes	100.00
Hydro Aluminum Metals USA, LLC	USA	Baltimore	100.00
Hydro Aluminium Australia Pty. Limited	Australia	Kurri Kurri	100.00
Hydro Aluminium Clervaux S.A.	Luxembourg	Eselborn	100.00
Røldal-Suldal Kraft AS	Norway	Nesflaten	91.30
Companhia de Alumina do Para SA	Brazil	Barcarena	81.00
Hydro Aluminium Iberia S.A.U	Spain	Guadalajara	100.00
Hydro Aluminium Deeside Ltd.	United Kingdom	Wrexham	100.00
Hydro Aluminium High Purity GmbH	Germany	Grevenbrioch	100.00
Hydro Aluminium Gießerei Rackwitz GmbH	Germany	Rackwitz	100.00
Extrusion Services S.a.r.l	France	Lucè	100.00
Hycast AS	Norway	Sunndalsøra	100.00
Hydro Vigelands Brug AS	Norway	Vennesla	100.00
Hydro Vigelandsfoss AS	Norway	Vennesla	100.00
Skafså Kraftverk ANS	Norway	Høydalsmo	33.00
Hydro Aluminium Recycling Deutschland GmbH	Germany	Dormagen	100.00
Hydro Aluminium Dormagen GmbH	Germany	Dormagen	100.00

Net gain on sale of subsidiaries in 2016 refers to liquidation of Norsk Hydro Plastic Pipe AS and sale of Herøya Industripark AS. Net gain on sale of subsidiaries in 2015 refers to liquidation of Grenland Industriutvikling AS and Hydro Magnesium Porsgrunn AS.

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.

The Norwegian state is a related party to Norsk Hydro ASA as its shareholding represents a significant influence in Norsk Hydro ASA.

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 107 million in 2016 and NOK 112 million in 2015. Receivables related to such costs amounted to NOK 93 million and NOK 95 million per December 31, 2016 and 2015, 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.

Note 9 - Specification of balance sheet items

Amounts in NOK million	**2016**	2015
Securities	**535**	546
Prepaid pension	**3 590**	3 106
Other non-current assets	**135**	119
Total prepaid pension, investments and other non-current assets	**4 261**	3 771
Pension liability	**2 414**	2 437
Deferred tax liabilities	**430**	597
Other long-term provisions	**458**	429
Long-term provisions	**3 302**	3 463

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 2016 and 2015, the value of currency forward contracts outstanding with subsidiaries were as follows:

Amounts in NOK million	**2016**	2015
Currency forward contracts, short-term	**29**	25
Currency forward contracts, long-term	**157**	273
Financial income, net	**186**	298

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 and Japanese yen, 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	**2016**	2015
Guarantees related to jointly controlled entities	**20**	24
Commercial guarantees	**4 539**	4 655
Total guarantees not recognized	**4 559**	4 679

Note 12 - Long-term debt

As of December 31, 2016, long-term debt amounted to NOK 2,365 million, of which nothing falls due after 2020. As of December 31, 2015, long-term debt amounted to NOK 2,663 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, 2016 was NOK 2,271,760,107 consisting of 2,068,998,276 ordinary shares at NOK 1.098 per share. As of December 31, 2016 Norsk Hydro ASA had purchased 26,104,160 treasury shares at a cost of NOK 870 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 2,042,894,116 shares outstanding as of December 31, 2016, 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	126 362 900
The Northern Trust Comp.[1)]	70 366 228
Clearstream Banking S.A.[1)]	44 401 490
HSBC BANK PLC [1)]	42 310 255
The Bank of New York Mellon N.V. [1)]	31 975 986
State Street Bank and Trust Comp [1)]	31 629 888
JPMorgan Chase Bank, N.A., London [1)]	31 594 322
Invesco Funds	23 266 489
State Street Bank and Trust Comp I [1)]	21 868 700
State Street Bank and Trust Comp II [1)]	21 114 108

1) Nominee accounts.

Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
December 31, 2015	31 310	26 174	57 484
Net income		9 114	9 114
Remeasurement postemployment benefits		322	322
Dividend paid in 2016 not accrued [1)]		(1)	(1)
Dividend proposed		(2 554)	(2 554)
Treasury shares	3	42	45
December 31, 2016	31 313	33 097	64 409

1) Owners of shares sold from treasury shares in April 2016 received dividends for those shares in May 2016. However, this was not accrued in 2015.

Responsibility statement

We confirm to the best of our knowledge that the consolidated financial statements for 2016 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 2016 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 2016 has been prepared in accordance with the Norwegian Accounting Act §3-3d and the Norwegian Security Trading Act §5-5a.

Oslo, March 14, 2017

Dag Mejdell
Chair

Irene Rummelhoff
Deputy chair

Liv Monica Bargem Stubholt
Board member

Ove Ellefsen
Board member

Billy Fredagsvik
Board member

Finn Jebsen
Board member

Sten Roar Martinsen
Board member

Thomas Schulz
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

INDEPENDENT AUDITOR'S REPORT

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 2016, 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 2016, 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 2016, 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 financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, 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, included 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.

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
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. The economic environment, current long-term assumptions and the Group's business plans indicate that impairment is a risk related to specific assets, cash generating units and can also impact the assessment of impairment of goodwill. 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. As at 31 December 2016, the Group has goodwill of NOK 3,135 million, Property, plant and equipment of NOK 58,734 million and intangible assets of NOK 2,675 million. During 2016, the Group has recognized impairment charges of NOK 433 million related to primarily property, plant and equipment including assets under construction.	Our audit procedures in this area included, among others: • 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 forecast cash flows including timing of future cash flows applied in the models with reference to historical accuracy and approved business plans • 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 compared against external sources and relevant benchmarks • Assessing the assumptions and estimates made related to assets under construction and the basis for the impairment recognized by management • Testing the mathematical accuracy of the models used to calculate value in use • Assessing the adequacy of the disclosures related to impairment

Environmental clean-up cost and asset retirement obligations

Refer to Note 5 Critical accounting judgement and key sources of estimation uncertainty, Note 34 Provisions 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
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. Management decisions to expand, curtail or terminate operations in specific locations can also impact obligations as described above. 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. The Group has recognized environmental clean-up provisions and asset retirement obligations of NOK 3,730 million as explained in note 34 and discloses information pertaining to contingent liabilities in note 35.	Our audit procedures in this area included, among others: • 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 that the models used to calculate provisions and asset retirement obligations are mathematically accurate • Assessing the adequacy of the disclosures pertaining to estimation uncertainty, provisions and contingent liabilities

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
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. 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. Recoverability of deferred tax assets related to losses carried forward are assessed based on estimates of future taxable profits and are judgmental in nature. 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. As of 31 December 2016 the Group has recognized NOK 1,882 million in Prepaid taxes and tax credits, deferred tax assets of NOK 1,566 million including deferred tax assets related to losses carried forward and lastly taxes payable of NOK 1,773 million.	Our audit procedures in this area included, among others: • 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 • 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 for the Financial Statements

The Board of Directors and the President and CEO ("Management") are responsible for the preparation and fair presentation of the financial statements of the Company in accordance 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 those charged with governance 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 those charged with governance, 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 Accounting 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, 14 March 2017

KPMG AS

Arne Frogner

State Authorized Public Accountant

[Translation has been made 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 2016 and the Auditors' report have been submitted to the corporate assembly.

The Corporate Assembly recommends that the directors' proposal regarding the financial statements for 2016 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 2016 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, March 14, 2017

Terje Venold

Additional information

Annual General Meeting

The Annual General Meeting will be held at the company's offices at Drammensveien 260, Oslo, Norway, on Wednesday, May 3, 2017, at 14:00 CET. Shareholders who wish to attend are asked to inform the registrar by 12:00 CET on Tuesday, May 2:

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 2017

April 28	First quarter results
May 3	Annual General Meeting
May 4	Shares traded ex-dividend
May 5	Record date for dividend
May 12	Dividend payment date
July 25	Second quarter results
October 25	Third quarter results

Hydro reserves the right to revise these dates.

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

Norsk Hydro ASA
NO-0240 Oslo
Norway

Tel.: +47 22 53 81 00
www.hydro.com

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HYDRO

Infinite aluminium