HYDRO

Annual 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 alumininium as well as production disturbances in Årdal following power outages.

Annual Report – 2016

HYDRO'S REPORTING 2016

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

The "Annual report - 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.

2016 OPERATING RESULTS IMPACTED BY LOWER REALIZED ALUMINA AND ALL-IN METAL PRICES

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 driven by lower margins and higher costs.

Bauxite production in Paragominas amounted to 11.1 million mt for the year while alumina production from Alunorte was 6.3 million mt. Primary aluminium production was about 2.1 million mt and we delivered 2.9 million mt of casthouse products and liquid metal to internal and external customers. Downstream, we shipped roughly 0.9 million mt of rolled products to the market. Our energy business produced around 11.3 TWh of hydroelectric power. Hydro's share of Sapa sales volumes were about 0.7 million mt.

Board of Directors' report p.11

Hydro's Board of Directors' report including Alternative Performance Measures, Country by country report, Norwegian code of practice for corporate governance and the UK Modern Slavery Act transparency statement.

01: Business description p.53

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

02: Viability performance p.93

The Hydro Way forms the basis for our viability reporting. The first part describes our policy, strategy and main results, while he viability performance statements include reporting principles and quantitative information.

03: Financial and operating performance p.155

Financial and operating results are discussed per business area, as well as the market development and outlook. Additional factors impacting Hydro and financial income (expense) and income tax are discussed for the Hydro group. Information on items excluded from underlying EBIT is provided as well as disclosures covering liquidity and capital resources and return on capital.

04: Shareholder information p.173

Shareholder information includes share price development, dividend policy, funding and credit rating policy, the Annual General Meeting and the financial calendar for 2017.

05: Corporate governance p.179

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

06: Financial statements p.F1

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

07: Appendix p.A1

Terms and definitions.

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

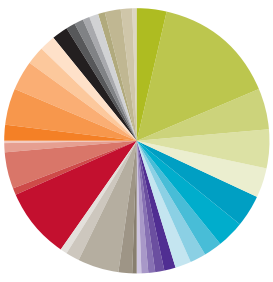
Hydro's organization is made up of about 13,000 employees involved in activities in more than 40 countries. The vast majority is employed in Brazil, Germany and Norway. These employees represent great diversity, in terms of competence, gender, age and cultural background. We see this diversity as a significant 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.

Key Developments

For the full year, 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's performance continued to improve, while Rolled Products delivered a weaker result driven by lower margins and higher costs.

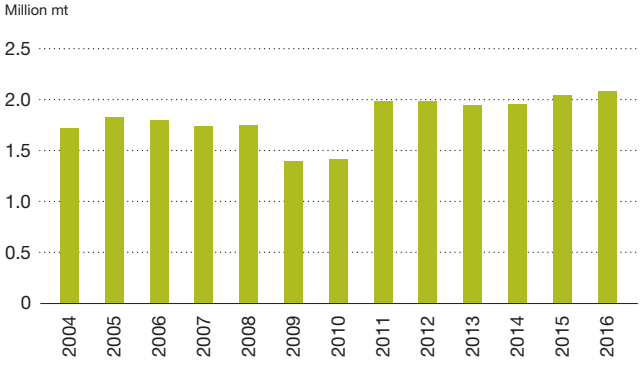
Geographical distribution of operating revenues

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



Hydro made good progress on its "Better" improvement ambition targeting NOK 2.9 billion of annual improvements by 2019. 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. 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 on the back of low industry costs, but increased slightly 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.

No fatal accidents occurred in Hydro's operation, 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 from 3.0 in 2015 to 2.6 in 2016. The injury rate for contractors also reduced, resulting in the same TRI rate as for own employees. This was the best recorded safety result in the company's history and was better than the target of 2.8 for own employees and 3.0 for contractors for the year.

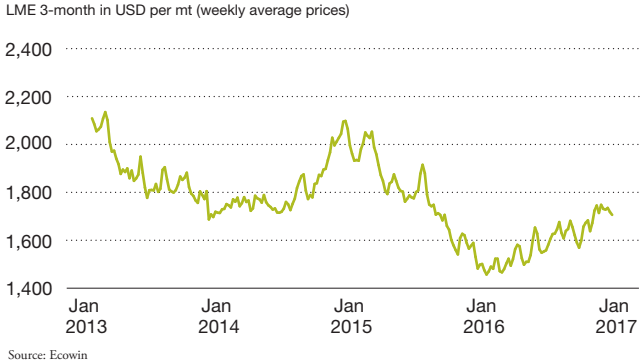
Strategic Direction

As a resource-rich, global aluminium company, Hydro intends to continue to drive the performance and profitability of its operations while securing safe, sustainable business practices. Building on the momentum achieved in earlier years, Hydro will continue to deliver on the ambitious target of NOK 2.9 billion of additional annual improvements for the period 2016 through 2019, of which NOK 0.5 billion is expected to be delivered in 2017.

Bauxite & Alumina will focus on higher productivity, maintaining high production levels and further optimization of the company's sales portfolio. In addition to further improving productivity and reducing costs, Primary Metal aims to lift production capacity at existing plants through proven technological developments. Primary Metal also aims at producing the first metal at the Karmøy Technology Pilot in the fourth quarter 2017, an important step also towards further improving productivity in the rest of the portfolio. Recycling is an important element supporting Hydro's ambition to become carbon-neutral by 2020 and Hydro aims to be a leading player in this growing market segment. Hydro intends to improve margins through high-grading its product portfolio and differentiation through innovation, quality and reliability. In Rolled Products this is best exemplified by the new automotive line in Germany, increasing Hydro's exposure to the high-growing automotive market. Capturing the full value potential from Hydro's Norwegian hydropower assets and using its competence to secure competitive energy sourcing for the company's global activities are key elements of Energy's improvement strategy.

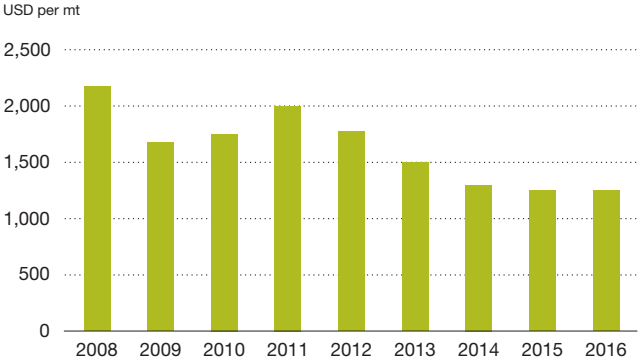
Hydro is intensifying its efforts to further improve its TRI rate for 2017 based on leadership, employee involvement and defined risk mitigating activities. Continued strengthening of the company's compliance activities is also an important objective for 2017, including further awareness training and stronger emphasis on integrity risk management in the supply chain.

The aluminium market price has improved during 2016



Source: Ecowin

Implied primary aluminium cost and margin



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."

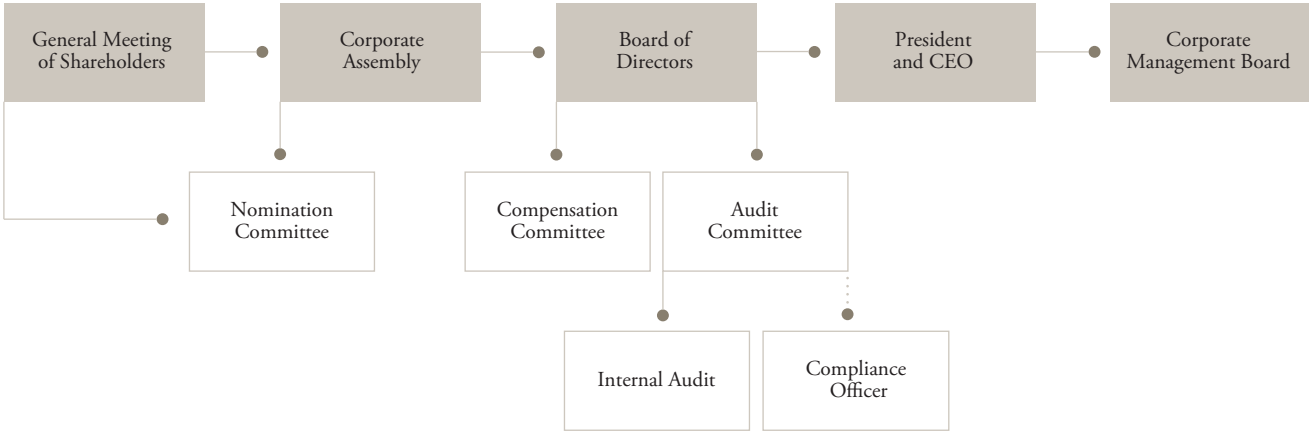
Svein Richard Brandtzæg
President & CEO

Board and Management

Board of Directors

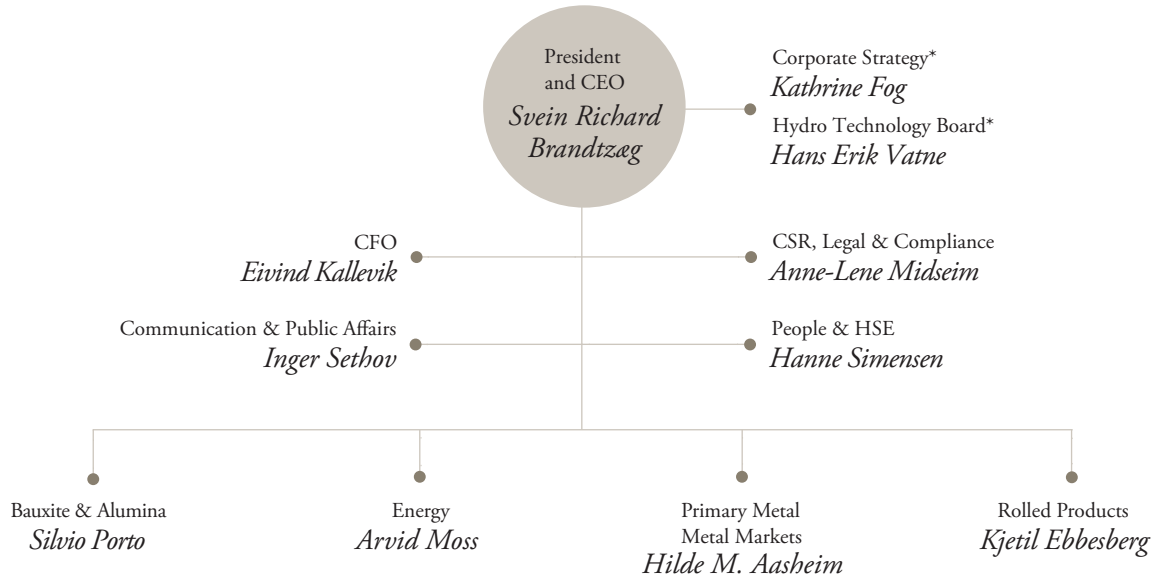
From left to rigth: Sten Roar Martinsen, Finn Jebsen, Liv Monica Bargem Stubholt, Dag Mejdell, Marianne Wiinholt, Billy Fredagsvik, Irene Rummelhoff and Ove Ellefsen. Thomas Schultz was not present.

Governance bodies in Hydro



Corporate Management Board

From left to right: Eivind Kallevik, Hanne Simensen, Arvid Moss, Svein Richard Brandtzæg, Kjetil Ebbesberg, Inger Sethov, Hilde Merete Aasheim, Silvio Porto and Anne-Lene Midseim.



* Staff positions reporting directly to CEO

Board of Directors' report

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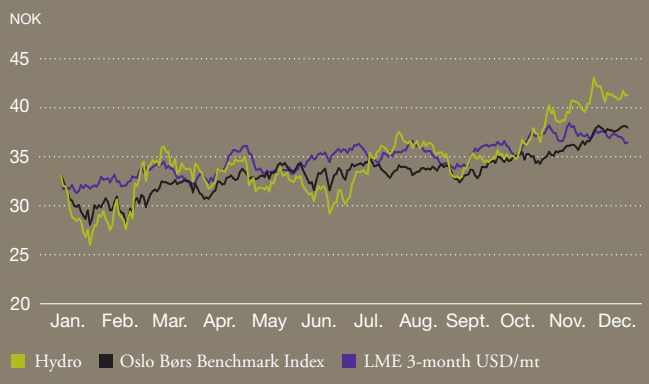
QUICK OVERVIEW

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.

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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	●
	Realize ongoing improvement efforts *Better*	BNOK 2.9	2019	1.4 BNOK	●
	Secure new competitive sourcing contracts in Norway post 2020	4-6 TWh	2020	1 TWh	●
	Lift bauxite production at Paragominas	11 mill mt/year	2018	11.1 mill mt/yr	●
	Lift alumina production at Alunorte	6.6 mill mt/year	2018	6.3 mill mt/yr	●
	Shift alumina sales to PAX-based pricing	>85% PAX [1]	2020	50% PAX [3]	●
	Extend technology lead with Karmøy technology pilot	Start production	Q4 2017	~70 % complete	●
Bigger	Realize technology-driven smelter capacity creep	200,000 mt/year	2025	35,000 mt	●
	Lift equity bauxite production	19 mill mt/year [2]	Long-term	Negotiations halted	●
	Increase nominal automotive Body-in-White capacity	200,000 mt/year	2017	Trial production started	●
	Complete ramp-up of UBC recycling line	Ramp-up completed	2017	Started, delayed ramp-up	●
Greener	Become carbon-neutral from a life-cycle perspective	Zero	2020	On track	●
	Increase recycling of post-consumer scrap [4]	>250,000 mt/year	2020	138,000 mt	●
	Deliver on reforestation ambition [5]	1:1	2017	180 ha rehabilitated	●

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.

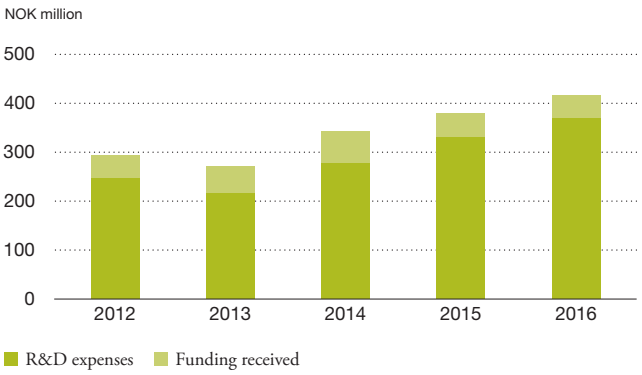
Our R&D technology efforts are concentrated on:

- 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 alumininium 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:

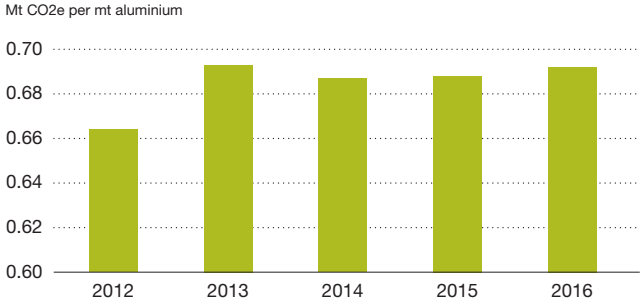
- Ecosystems and biodiversity
- Water
- Waste and efficient resource use
- Product stewardship

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.

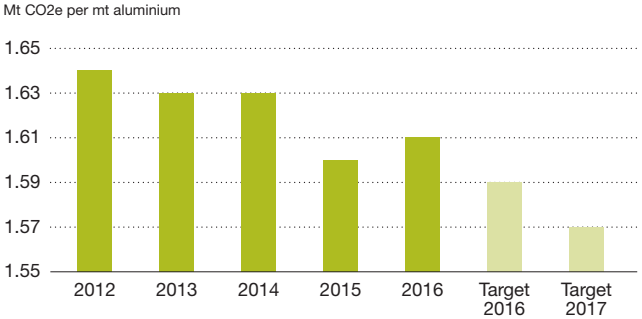
When the current tailings dams are closed, they need to settle for minimum five years before they will be available for rehabilitation. We will then get a new rehabilitation gap. We will continue to strive for a year-on-year balance between

GHG emission intensity – alumina refining



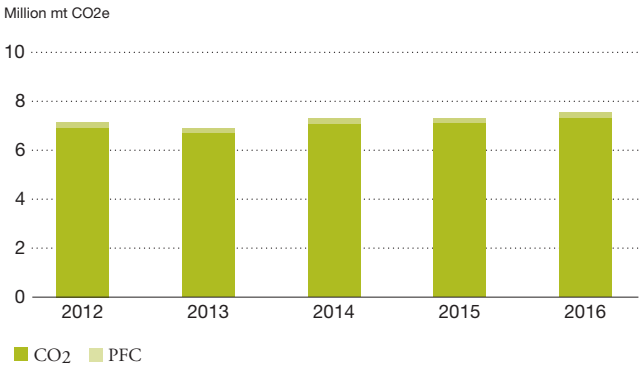
Includes greenhouse gas (GHG) emissions from alumina refining.

GHG emission intensity – electrolysis

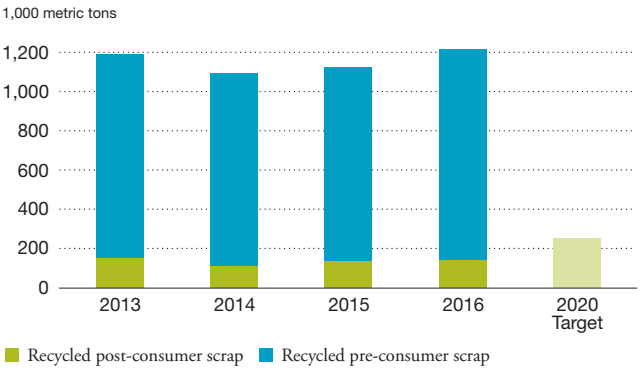


Includes greenhouse gas (GHG) emissions from electrolysis in primary aluminium production in Hydro's consolidated activities.

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.

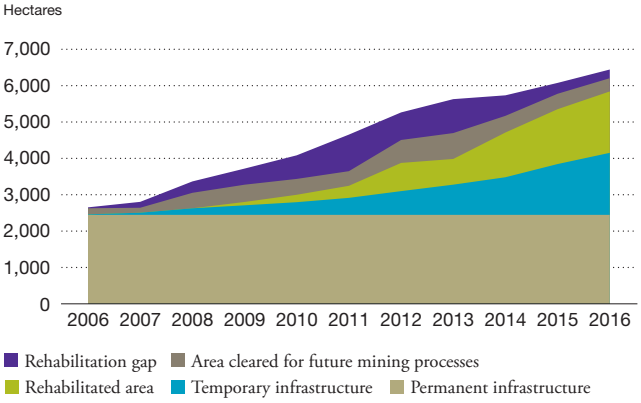
In addition to land use and biodiversity, the main environmental issues in bauxite extraction and alumina refining include waste disposal and greenhouse gas emissions. Waste production includes significant amounts of mineral rejects (tailings) from the bauxite extraction process and bauxite residue,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

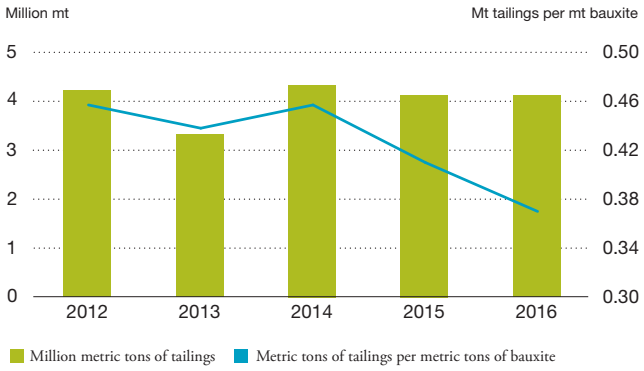
The dams are frequently inspected by Hydro and Brazilian authorities, and are also subject to inspections by e.g. Norwegian Geotechnical Institute (NGI) and Geomecanica. In 2016, NGI followed up an established action plan to secure the long term viability of the tailings dams and inspected the dams both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

Land use and rehabilitation – Paragominas

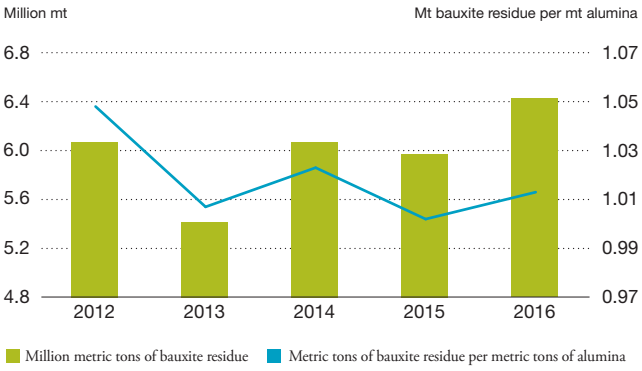


Permanent infrastructure includes areas related to administrative buildings, industrial facilities, current tailings dams, the pipeline to Alunorte and permanent roads. Temporary infrastructure includes among other things temporary roads and areas dedicated for new tailings dams.

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.

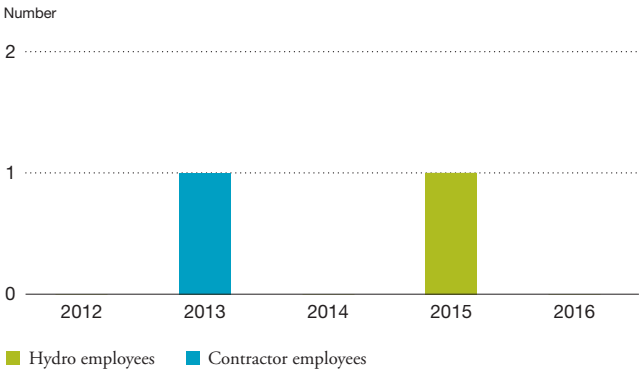
Our approach to improving safety performance is based on risk management, leadership qualities and shop floor engagement.

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.

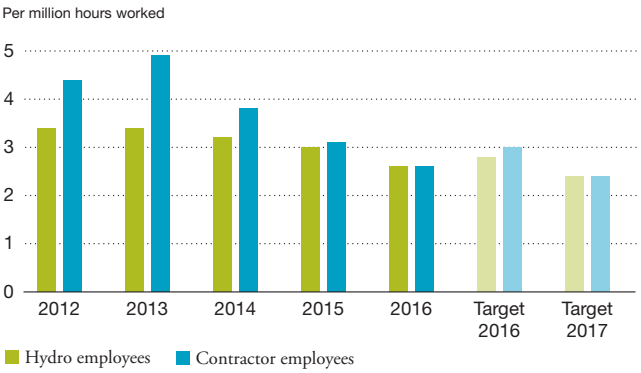
1) Total Recordable Injuries per million hours worked

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.

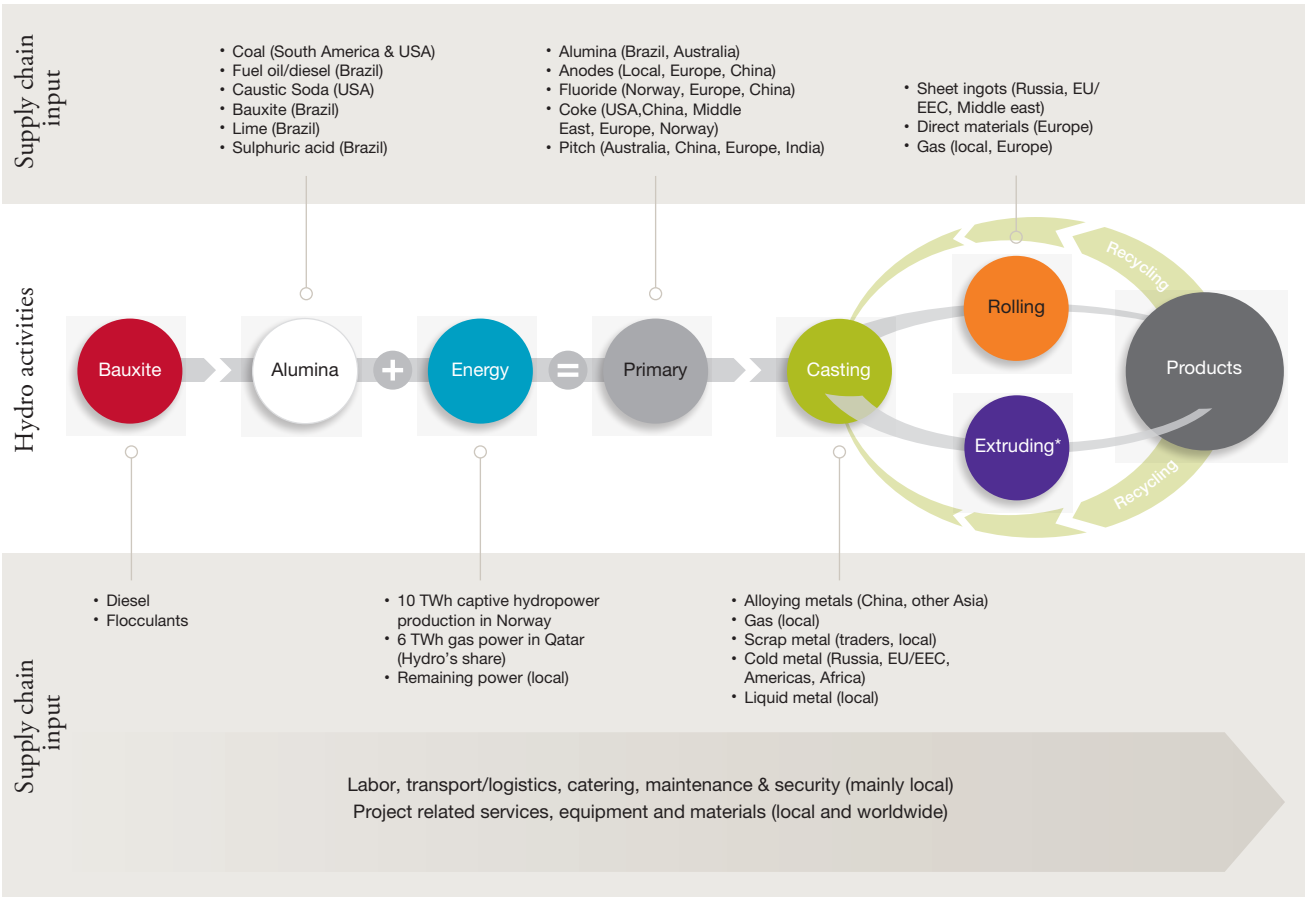
Part-owned operations

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

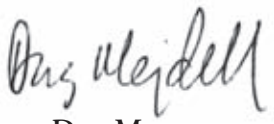
Norsk Hydro ASA (the parent company) had a net income of NOK 9,114 million in 2016 compared with NOK 2,379 million in 2015.

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.

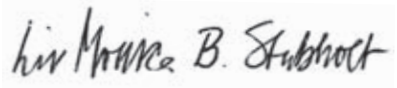
According to section 3-3 of the Norwegian Accounting Act, the board of directors confirms that the financial statements have been prepared on the assumption of a going concern.

Oslo, March 14, 2017



Dag Mejdell
Chair

Irene Rummelhoff
Deputy chair



Liv Monica Bargem Stubholt
Board member

Ove Ellefsen
Board member

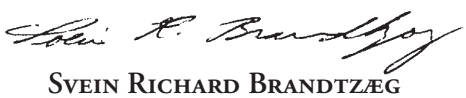
Billy Fredagsvik
Board member

Finn Jebsen
Board member

Sten Roar Martinsen
Board member

Thomas Schulz
Board member

Marianne Wiinholt
Board member



Svein Richard Brandtzæg
President and CEO

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01: Business description

QUICK OVERVIEW

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

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

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

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

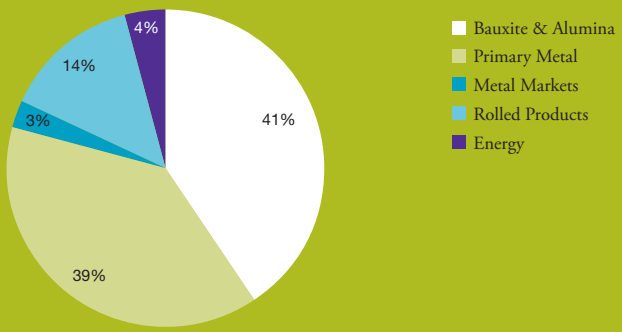
Underlying EBIT 2016

NOK MILLION

6,425

Capital employed - upstream focus

December 31, 2016: 81,670 MNOK



History and development

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

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

An era of diversification

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

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

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

Decades of global expansion

Hydro expanded globally in the 1980s. We developed our fertilizer operations into one of the leading suppliers in Europe. We also entered a new era as an oil company, becoming operator of the Oseberg offshore oil field. Research continued to drive our development as we introduced new technologies for deep-water oil and gas production and horizontal drilling. In 1986-87, we acquired the Norwegian state-owned aluminium company, Årdal og Sunndal Verk, and several European aluminium extrusion plants from Alcan and Alcoa, establishing Hydro Aluminium as a major business within Hydro and an important player in the European aluminium industry.

Later, we developed our businesses further through substantial acquisitions, including Saga Petroleum in 1999, VAW Aluminium in 2002 and Spinnaker Exploration Company in 2005. We also invested significant capital towards the expansion of existing alumina and aluminium production facilities, including our fully owned Sunndal primary metal plant in Norway, the part-owned Alouette smelter in Canada and three expansions of the Alunorte alumina refinery in Brazil. This was followed by the decision to participate in the construction of the Qatalum smelter in Qatar. In 2007, Hydro completed the first phase of the giant Ormen Lange gas field, considered one of the largest industrial projects ever undertaken in Norway. A significant portion of the expansion of these businesses was financed through the sale of non-core operations.

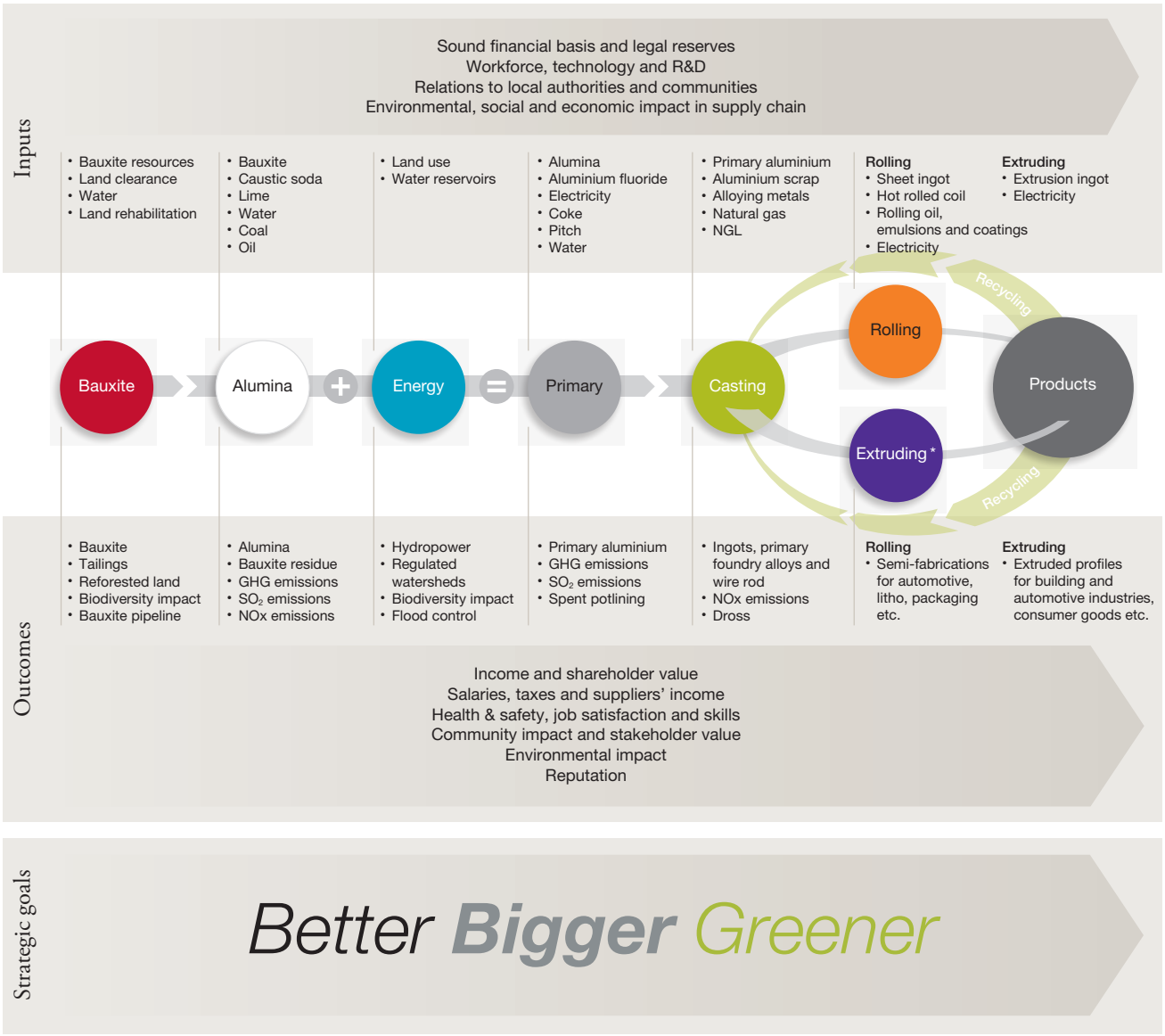
Throughout this period, we have focused on continuously improving the way we conduct our business. We have improved working conditions and reduced the number of accidents for own employees and contractors. We have also worked to reduce the negative impact of our activities on the communities where we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

Restructuring and concentration

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

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

Hydro's value chain



For information about Hydro's strategic goals, see Key developments and strategic directors in the Board of Directors' report.

Transforming transactions

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

In 2013, Hydro completed the agreement with Orkla ASA to combine their respective extrusion profile, building systems and tubing businesses within a new joint venture company owned 50 percent by each party. The new company, Sapa, includes all of Hydro's Extruded Products business activities and has significant operations in Europe, North America, South America and Asia. The agreement allows an initial public offering three years from closing, initiated by either party, where both have the option to retain a 34 percent interest in the company.

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

Operating segments

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

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

Hydro's business is divided into six operating segments including Bauxite & Alumina, Primary Metal, Metal Markets, Rolled Products, Energy and Other and eliminations:

Bauxite & Alumina includes our bauxite mining activities comprised of the Paragominas mine and a 5 percent interest in Mineracao Rio de Norte (MRN)[1)], both located in Brazil, as well as our 92 percent interest in the Brazilian alumina refinery, Alunorte and its 81 percent interest in the joint venture partnership Companhia de Alumina do Para (CAP), for a new alumina refinery close to Alunorte. These activities also include Hydro's long-term sourcing arrangements and alumina commercial operations.

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

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

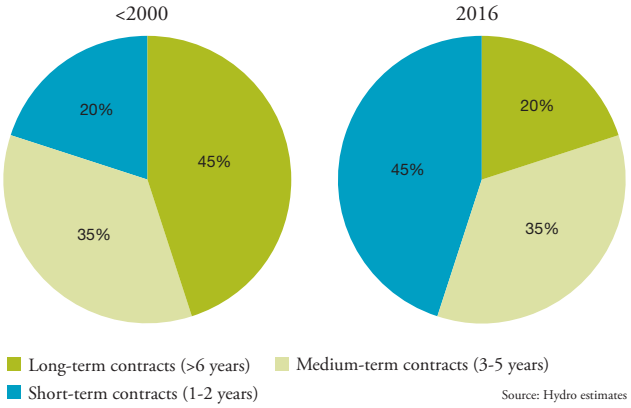
Aluminium upstream production facilities

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

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

Other and eliminations includes Hydro's 50 percent share in Sapa, a global leader in extruded aluminium solutions with significant operations in Europe, North America, South America and Asia.

Alumina contract durations



Source: Hydro estimates

Business and operating information

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

Hydro has zero tolerance for corruption or human rights violations and an ambition to avoid all serious accidents, in particular, in all our operations worldwide. Our compliance system requires adherence with external laws and regulations as well as internal steering documents and is based on prevention, detection, reporting and responding. We are proactive in securing that we interact with counterparties that also adhere with external laws and regulations. TRI rate (total recordable injuries per million hours worked) is a key metric we use for setting targets and monitoring our overall safety performance. See Viability performance section later in this report for more information on our approach, key performance targets and description of programs and activities relating to these issues.

Bauxite & Alumina

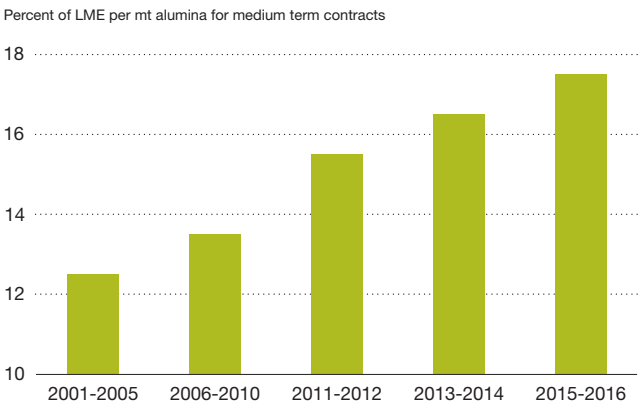
Industry overview - B&A

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

China, Australia, Brazil and Guinea accounted for 31, 29, 12 and 10 percent of global bauxite production of 303 million mt in 2016, respectively. The five largest mines outside China represented around 48 percent of the Western World bauxite production of 209 million mt.

Alumina is a significant cost element in the production of aluminium. The alumina market is competitive, but relatively

Alumina price



few players hold a long position. China is the largest producing country representing approximately 55 percent of the global demand and capacity.

Bauxite & alumina price developments
In the alumina industry, pricing has been moving away from fixed percentages of the aluminium price to index pricing. Introduced in 2010, the Platts alumina price index reflects the fundamental supply and demand balance as well as general cost developments of the alumina market. The index continues to gain support in the industry and represents the main reference for contracts of various durations. Since 1990, average annual contract prices have risen from a level of around 12 percent of LME aluminium reference prices to above 17 percent in average for 2016. The Platts alumina index started the year at around USD 200 per mt and was close to USD 350 per mt at year end, or around 21 percent of LME aluminum reference price.

Bauxite & alumina prices have been strongly influenced by developments in China, which is heavily dependent on imported bauxite. China's bauxite imports amounted to 52.1 million mt in 2016, 7 percent lower than the previous year. Australia was the largest supplier in 2016, followed by Guinea which exported 11.9 million mt to China as a new mine came into operation. Imports from Malaysia decreased 68 percent to 8 million mt as a bauxite mining moratorium came into effect in January but operators were allowed to export existing stocks. Imports from Brazil surged to 4.4 million mt on the back of curtailments of refinery capacity in the Atlantic basin. During 2016, the price of bauxite imported to China trended down to an annual average of USD 49 per mt CIF China compared to USD 53 per mt CIF China in 2015.

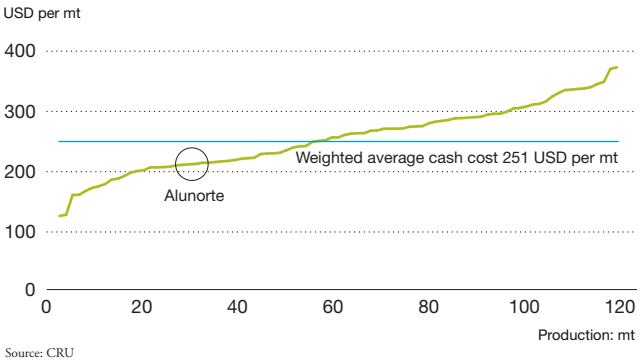
Strategy and targets - B&A

Delivering on its ambitious improvement program, "Better Bauxite & Alumina", reducing cost and increasing safety and efficiency continues to be a key priority for Bauxite & Alumina in the coming year together with maintaining record high production volumes of alumina at Alunorte and bauxite at Paragominas. We will also work towards securing and developing bauxite resources for future decades. Optimizing and enhancing the commercial value of our attractive sales portfolio will continue to be an important item on our agenda. We will also continue our proactive approach to regulatory challenges by ongoing systematic dialogue with key stakeholders in Brazil.

Further optimize operating costs and deliver significant cost savings
Bauxite & Alumina well exceeded their "Better Bauxite & Alumina" improvement ambition of NOK 500 million in improvements for 2016. The improvement program is on

World cash cost curve

Site cost curve 2016



Source: CRU

target to achieve NOK 1 billion of annual improvements by the end of 2019. During the coming year we will continue to focus on maintaining high production levels, higher productivity, lower operating costs and our commercial operations. Our Bauxite & Alumina Business System (BABS) ensures best practices and operating efficiencies across our portfolio.

Reinforce safe and sustainable business practices
Important HSE initiatives for the coming year include process safety, increased risk awareness, safeguarding the environment, best practice sharing and improved training. In the CSR area we focus on strengthening the dialog with all major stakeholders. 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 our current fuel oil consumption at the Alunorte alumina refinery with more climate and cost efficient natural gas.

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

Expand our bauxite and alumina capacity
Hydro has attractive positions enabling the potential expansion of low-cost alumina refining. These include the CAP joint venture for a potential new alumina refinery and possible expansion of the Paragominas mine. Further development of these projects is mainly dependent on ongoing developments in the balance between industry production capacity and market demand. Hydro and Brazilian mining company Vale ended negotiations on the possible acquisition of Vale's 40 percent interest in Brazilian

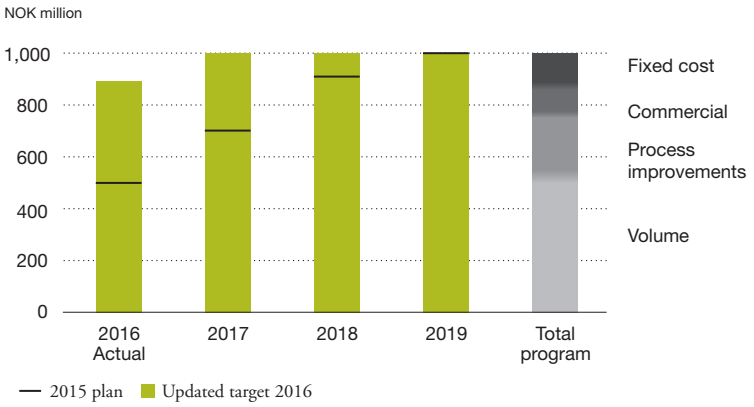
Bauxite & Alumina improvement ambition

Improvement categories

Alunorte
- Support production above nameplate capacity
- Improve energy consumption and matrix
- Reduce fixed costs

Paragominas
- Support production above nameplate capacity
- Reduce fixed costs

Commercial
- Reduce demurrage costs
- Lift optimization margin



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 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. Operational improvements in both Paragominas and Alunorte resulted in record production during 2016 above nameplate capacity.

Mid-term strategic goals Bauxite & Alumina

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Improve safety performance, strive for injury free environment	TRI <2 [1]	2020	TRI 1.8 [1]	TRI 1.8 [2]	●
	Realize ongoing improvement efforts Better Bauxite & Alumina	NOK 1.0 billion	2019	NOK 100 million	NOK 900 million	●
	Shift alumina sales to PAX-based pricing	>85 % PAX [3]	2020	~65% PAX	~50% PAX [4]	●
	Maintain and comply with the ICMS regulatory framework renewed in 2015	Stable framework conditions	Long-term		Business development in compliance	●
Bigger	Lift alumina production through stabilization and debottlenecking	6.6 mill mt/yr	2018	6.3 mill mt/yr	6.3 mill mt/yr	●
	Lift bauxite production through debottlenecking	11 mill mt/yr	2018	11 mill mt/yr	11.1 mill mt/yr	●
	Develop plan for approval of infrastructure projects with postive impact on the social development in Barcarena	Establish project with positive impact on social development of the Barcarena municipality in Brazil	2020	Scrap collection project ready for detailed design and installation	Feasibility study performed on making a living on scrap collection	●
Greener	Deliver on reforestation ambition	Close the reforestation gap	2020	1:1	180 ha rehabilitated [5]	●
	No reportable environmental incidents	0	Long-term	0	0	●

1) Own employees and contractors combined
2) Own employees
3) Based on annual sourced volumes of 2.3 million mt
4) Based on sourcing volumes of 2.5 million mt for 2016
5) We are on track for the 2020 target. In 2016, we rehabilitated in total 180 hectares (ha), while 181 ha were made available for rehabilitation. The target for 2016 was 325 ha. We will review our rehabilitation targets and definitions in 2017.

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

Ambitions going forward
We are strongly committed to safety and to eliminating high-risk incidents in our operations. Going forward, we intend to capitalize on our strong position in bauxite and alumina in a resource constrained world. This will increase our attractiveness as a partner in new ventures and our ability to exploit other opportunities which may arise. Reducing our impact on the local environment is also an important objective going forward, including continuing to reduce the gap between clearing for mining operations and rehabilitation.

Operations - B&A

Bauxite from Paragominas is mined in open pits and sorted and crushed into sizes suitable for transportation as slurry through the world's longest pipeline approximately 240 kilometers to Alunorte for refining into alumina. Bauxite from MRN is transported by vessel. Alumina processing begins by removing the water from the bauxite slurry, then mixing the bauxite with caustic soda at high temperature and pressure. The resulting mixture is pumped into a digester, where a chemical reaction dissolves the alumina. This process produces a sodium aluminate solution, which is transferred into tanks to separate impurities through settling and filtration. The cooled sodium aluminate solution is then pumped into precipitators to grow alumina crystals, which are transferred to thickening tanks and further to fluid bed calciners to remove water, producing pure alumina.

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

For alumina refining, bauxite, energy and caustic soda represent around 85 percent of cash costs. Energy costs are a mix of fuel, coal and electricity and represent around 30 percent of the total costs. Caustic soda represents around 15 percent of cash costs. In 2016 fuel, coal and electricity prices declined while caustic soda price increased. Bauxite purchases from Paragominas, and under off-take agreements from MRN, are based on prices partly linked to LME prices and alumina market prices. Optimization of the energy mix for Alunorte will be a major factor to achieve the targets related to the new "Better Bauxite & Alumina" improvement ambition.

Historically, Alumina has been primarily sold under medium and long-term contracts at prices referenced to the LME. The realized alumina price, the key revenue driver, has been volatile during 2016 representing between 14.2 and 15.8 percent of LME reference prices for Hydro's combined internal and external sales portfolio. Hydro has been replacing expiring alumina sales contracts with increased sales volumes at index pricing and we intend to further increase our share of volumes at index pricing as old, legacy contracts continue to expire.

Competitive strengths
- Paragominas, one of the world's largest bauxite mines with a current reserve life of several decades
- Significant bauxite resources beyond current reserves
- High quality Gibbsite bauxite delivering refining benefits in the form of lower investment and operating costs
- Unique integrated pipeline generating increasing economies with higher production and potential expansions. Low environmental impact
- Alunorte, the world's largest alumina refinery, and one of the most cost effective on an integrated cash cost basis
- Consistent high quality alumina
- Favorable long alumina position with shorter contract durations increasing potential for greater value creation as more volumes become available for pricing on index
- Substantial expansion opportunities for bauxite mining and alumina refining

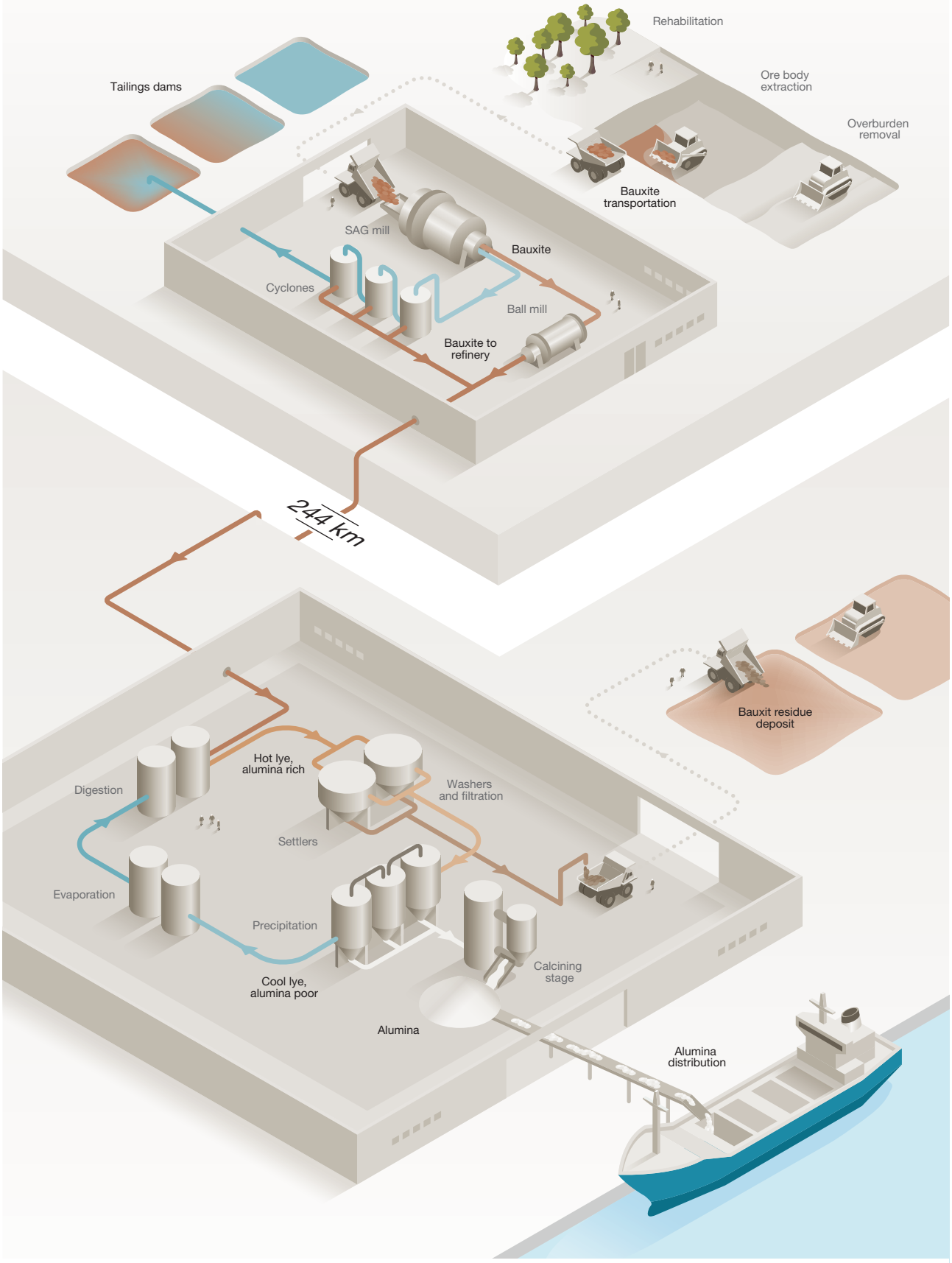
Bauxite mining
Paragominas is located in the Brazilian state of Pará. The mine has a nominal production capacity amounting to 9.9 million metric tons, 14-percent moisture bauxite on an annual basis, which represents about 4 percent of global capacity. Operations include a mining fleet of about 182 vehicles and 1,372 employees.

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

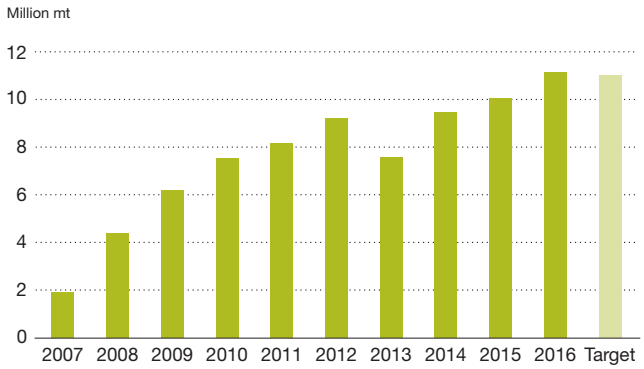
The site is connected to a 244-kilometer slurry pipeline with an annual capacity of 15 million mt. It is the only bauxite slurry pipeline in the world, and has significant integration advantages combined with a very low environmental impact.

Paragominas supplies all of its production to Alunorte. In 2016 Hydro acquired the remaining shares for a 100 percent ownership in Paragominas, providing about 71 percent of Alunorte's bauxite requirements. The remainder is sourced from MRN, which Hydro has a 5 percent ownership interest in and off-take agreements with Vale for a further 40 percent

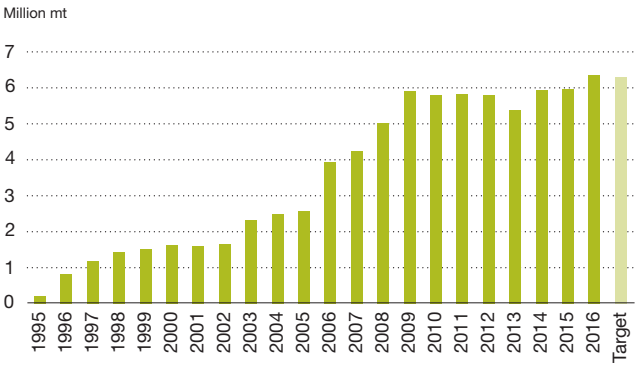
Bauxite extraction and alumina refining in Hydro



Bauxite production



Alumina production



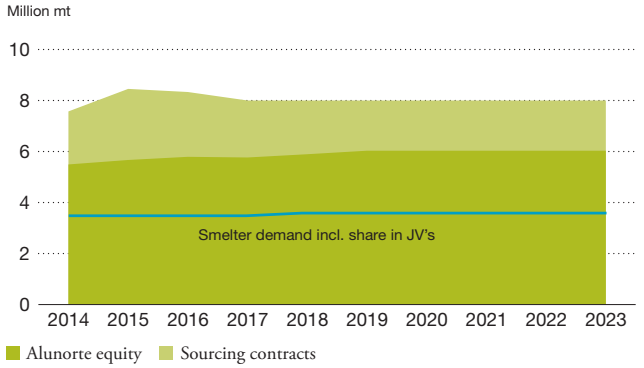
of the volume produced by MRN.[1] The MRN mine is one of the three largest and most efficient bauxite mines world-wide and the largest in Brazil.

Alumina refining

Hydro's major alumina asset is its 92 percent interest in the Alunorte alumina refinery. Alunorte has a nominal capacity of approximately 6.3 million mt of alumina. The Alunorte refinery is competitive due to the high quality of its alumina, advantages in scale and technology, relatively low energy consumption and labor costs. The plant has several cost advantages, including an efficient energy mix of heavy fuel oil and coal, competitive caustic soda consumption due to high quality bauxite and a potential for lower transport costs through higher pipeline throughput.

CAP, a potential new alumina refinery to be located in Barcarena, close to Alunorte, has been under evaluation for development in a joint venture between Hydro and Dubal Holding LLC (Hydro's share, 81 percent). The technical design for the refinery was reviewed in 2016 resulting in further planned improvements in performance and costs. The new design has an initial annual capacity of 2.6 million mt, with the potential for future expansions of up to 7.4 million mt. Further progress in this project is mainly dependent on the balance between industry production capacity and market demand.

Alumina position



Commercial operations

Hydro has a long position in bauxite of 3-4 million mt and in alumina of approximately 2-3 million mt. We are pricing bauxite on its own fundamentals to reflect the superior Brazilian quality. As mentioned above, in addition to Paragominas and our equity interests in MRN bauxite mine, we have volume off-take agreements for Vale's 40 percent interest in MRN, which amounted to 7.9 million mt in 2016. The excess bauxite not consumed in Alunorte is sold to third parties.

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

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

Technology and innovation

Hydro is working to develop improved beneficiation and refinery processes allowing for the increased utilization of lower-grade bauxite ores. A R&D program to develop solutions to minimize the economic impact of the relatively high kaolinite content of Amazon bauxite is underway. This is expected to result in a significant reduction in operating costs and incrementally increase the amount of economically viable resources.

The Paragominas mine is optimizing its continuous mining technology and improving productivity. The beneficiation plant is optimizing and simplifying its milling and size separation processes, leading to higher throughput and better overall recovery. These initiatives are supporting Paragominas' record production levels, above nameplate capacity, and reduced operating costs.

Alunorte is now slightly exceeding nameplate capacity, focusing on maintaining good equipment condition in order to meet critical process design parameters. Alunorte's much improved process stability also contributes to lower fixed costs and lower variable costs, namely energy, bauxite and caustic soda usages. Improved energy efficiency also reduces our CO2 emissions.

Alunorte uses state of the art dry stacking technology for disposing of bauxite residue, also known as red mud. Hydro is commissioning a more advanced pressure filtration technology, replacing the existing drum filtration, that further reduces moisture content of the bauxite residue disposed, resulting in lower deposited volumes, reducing our environmental footprint. We also participate in international collaboration projects investigating possibilities to use bauxite residue as a resource.

Environment

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

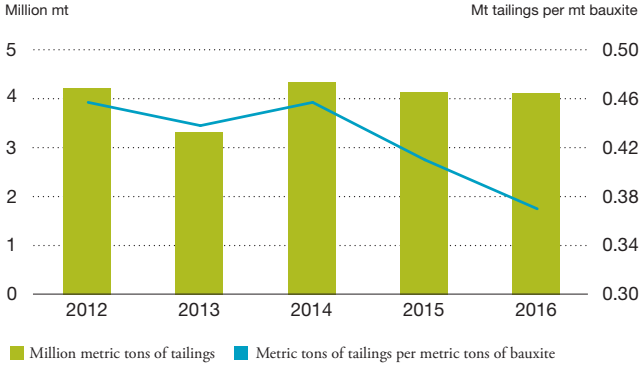
Hydro's bauxite mining at Paragominas involves removing vegetation and a layer of topsoil and overburden to extract bauxite deposits eight to ten meters below the surface. As a result, mining operations disturb relatively large areas. Hydro's Paragominas mine is located in an area that is normally recognized as the deforestation belt around the central Amazon region. The municipality of Paragominas has experienced a reduction of forest cover of more than 30 percent over a period of almost 20 years. Much of this occurred before the establishment of the Paragominas mine and the area had been exposed to selective logging and clear cutting before commencement of operations in 2007. Reforestation and wildlife management at Paragominas are core elements of our sustainability strategy. Our most important reforestation ambition is to achieve a balance of 1:1 in terms of rehabilitation and clearing for mining operations and to close the existing reforestation gap by 2020. To increase our knowledge and to secure a science-based approach, the Biodiversity Research Consortium Brazil-Norway (BRC) was established in 2013, please see Resource management under Viability Performance in this report.

Solids wastes production includes significant amounts of residues from the bauxite extraction process (bauxite tailings) and from alumina refining process (bauxite residue, also known as red mud). Tailings are stored in ponds where the particles settle. Separated water is clarified and reused in the process. Dams are systematically inspected by Hydro and third parties including the Norwegian Geotechnical Institute (NGI) which followed up the established action plan and inspected the dams both in Paragominas and Alunorte in 2016.

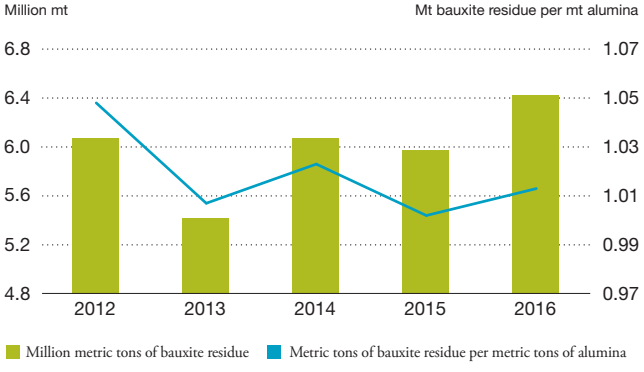
The current tailing ponds, which are expected to be full by 2018, are constructed on a gradient slope, which is called Tailing System #1. The construction of a new tailing pond has started and will be located on a plateau at an exhausted open pit area in an even safer place, the Tailing System #2. The Tailings Ponds Closure Plan was last revised in 2015, and Hydro expects to start the recovering process at the Tailing System #1 sometime after 2020.

Bauxite residue disposal process is challenging due to the large volumes and the alkaline nature of the residue. The

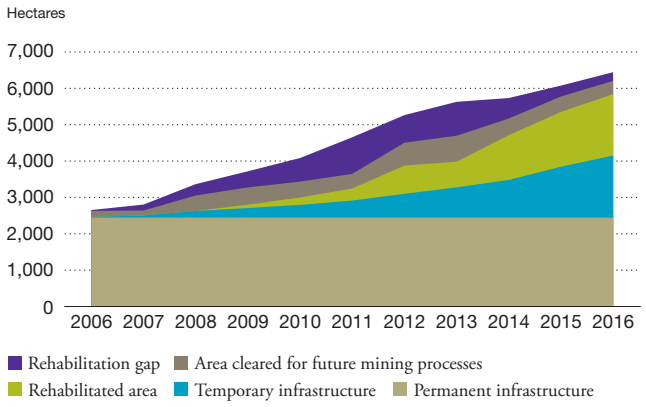
Tailings from bauxite production



Bauxite residue from alumina production



Land use and rehabilitation – Paragominas



Permanent infrastructure includes areas related to administrative buildings, industrial facilities, 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.

residue is washed with water to lower the alkalinity and recover caustic soda for reuse. For more information, please see under Technology and innovation above.

Emissions for Hydro's Alunorte refinery relate mainly to steam generation which relies on coal and heavy fuel oil. The plant emits about 3.8 million mt of CO2 per year.

People
Bauxite & Alumina had 3,701 employees in its consolidated activities at the end of 2016, which includes temporary employees, apprentices and employees in leave of absence. We strive for a safe working environment as a fundamental right of all employees. We believe that this, together with an engaged workforce, improves efficiency and results in lower operating costs. Employee development is also an important factor. Our internal performance and development process, My Way, and employee engagement index Hydro Monitor, are important tools to enhance our people and organization performance and development. See the Viability performance section later in this report for more information. In 2016, 99 percent of all employees participated in My Way.

Our Bauxite & Alumina Business System (BABS) has been used as the basis for implementing a standardized production system in our operations. The system is based on Primary Metals AMBS system and promotes employee empowerment and development and facilitates the sharing of best practices throughout the organization. Implementation of BABS was an important initiative underlying the From B to A improvement program and will continue to support our new improvement ambitions.

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

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

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. Please see the Viability Performance section later in this report for further information.

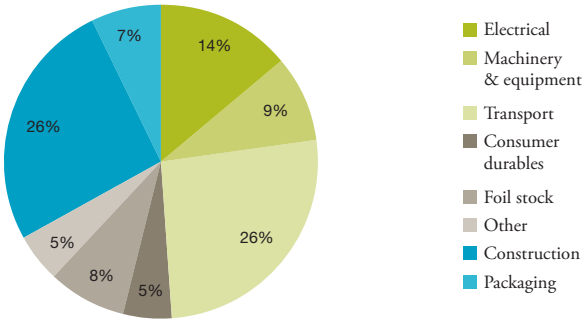
Within Bauxite & Alumina's supply chain, the most important risks include corruption, fraud and inappropriate working conditions. Our sustainability metric is comprised of several elements including promoting local content, mitigating social risk in the supply chain and screening all suppliers as part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

Primary Metal

Industry overview - PM
The basic raw material for aluminium is bauxite which is refined into alumina. Aluminium smelting is a capital-intensive, technology-driven industry. Energy represents approximately 50 percent of the costs throughout the value chain. As the world's largest consumer and producer of aluminium, China has a significant impact on market fundamentals. In 2016, China represented 53 percent of worldwide aluminium consumption and 54 percent of

Global aluminium consumption* by end use 2016

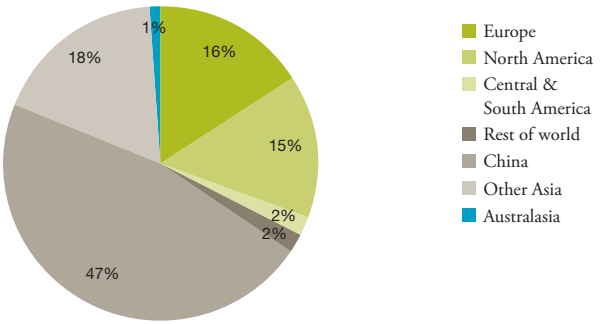
Total market 82.7 million mt



* Consist of semi fabricated products (included recycled aluminium)
Source: CRU LT 2016/Hydro

Global aluminium consumption* by region 2016

Total market 82.7 million mt



* Consist of semi fabricated products (included recycled aluminium)
Source: CRU LT 2016/Hydro

corresponding production. India and the Middle East are also growing in importance in the production of aluminium.

Aluminium is also derived from remelting and recycling aluminium scrap. Scrap is generated both in the production (pre-consumed) and use (post-consumed) of aluminium products. Recycling of post-consumed scrap requires about 5 percent of the energy required for electrolysis metal. Globally almost 20 percent of aluminium products are made from post-consumed scrap. Around 70-75 percent of all aluminium produced since the Hall-Heroult process was discovered in 1886 is still in use.[2)]

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

Demand for aluminium products in mature markets like North America and Europe is normally in line with economic developments, although with greater volatility. However, substitution for steel and other metals by aluminium, in particular for automotive applications, contributes to higher growth levels and is a key fundamental driver underlying increasing demand in aluminium markets. In recent years total global demand has exceeded the growth in GDP and is expected to continue to do so in the medium term. Increased consumer demand and continued infrastructure investment in China are expected to drive global demand growth in primary metal in the range of of 4 to 6 percent for 2017 and 3 to 4 percent over the coming 10 years, despite an expected lower pace of global economic development compared to the previous decade. Primary demand is expected to grow 2 to 4 percent in the world outside China in 2017, with North America leading the way driven by macroeconomic improvements and increasing market penetration of aluminium components within the transportation market segments.

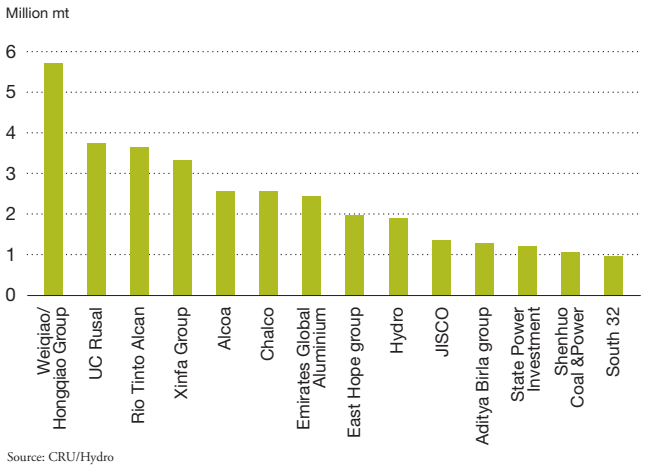
Although growth in the Chinese economy is slowing, the growth in aluminium consumption continues to outpace other commodities. However, continued capacity increases have resulted in an oversupply in China leading to exports of semi-fabricated products above historical levels.

Structural developments

As a result of smelter production growth, in China in particular, the 10 largest aluminium companies now represent more than 50 percent of global aluminium production. Global production amounted to roughly 60 million mt in 2016. Private companies in China have grown significantly in the last several years, in particular the Hongqiao group, which has become the world's largest aluminium producer. Other private Chinese companies such as Xinfa and the East Hope group have also shown strong growth. Conversely, state owned companies in China, in particular Chalco and State Power Investment Company have reduced their size along with poor economic performance some times back. Outside China, the strongest production growth has been among companies active in the Middle East, in particular the Emirates Global aluminium (EGA) group, which was established by the merger of Dubal and EMAL back in 2014.

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

Top world primary aluminium producers in 2016



Source: CRU/Hydro

Aluminium price

In 2016, Hydro maintained its position as the fifth largest producer outside of China, and still ranked ninth globally in terms of annual primary aluminium production. The largest producer outside China continued to be Rusal followed by Rio Tinto Alcan and Alcoa. The ten largest producers world-wide include five operators in China which mainly focus on supplying the Chinese markets.

Aluminium price developments

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

LME aluminium prices are heavily influenced by macroeconomic and market developments. Prices exhibited a historic decline during the financial crisis of 2008/2009 and began falling again during 2013 following a volatile period of improving prices. LME prices were further dampened by the significant accumulation of standard ingot inventories driven by financial investments. At the same time, standard ingot premiums increased significantly due to strong physical demand, partly compensating producers for the low LME prices. Product premiums also increased over this period. LME prices, including standard ingot premiums, peaked, however, towards end of 2014. In 2015, both LME prices and standard ingot premiums fell, influenced by surplus metal from China exported in the form of semi-fabricated products. Increased supply from LME warehouses, due to lower incentives for financial investments, together with a change in warehouse rules, aimed at increasing the availability of metal in the market, also put pressure on market prices. Prices remained at a level that resulted in smelter closures, in particular in the US but also in China. *See Market developments in the Financial and operating review section of this report for further information on price developments for 2016.*

The decline in premiums has reduced the incentive for Chinese exports which have declined from a peak at end of 2014. However, arbitrage opportunities are expected to continue to occur in the future, and will influence the magnitude of exports of semi-fabricated products from China and hence also metal prices going forward. Throughout 2016, following the effect of capacity closures, as well as cost reductions across main inputs and raw materials such as energy, alumina and carbon, the market has improved. Based on the improved sentiment and already approved plans for new smelter capacity China started to reopen idle plants and also opened new Greenfields towards the end of 2016. We therefore expect more capacity in production 2017. The Chinese government has late in 2016 given signals that land purchase for new projects should be stopped, and that new projects will not be given approvals. China is also working actively to develop new domestic applications for aluminium to reduce the overcapacity, such as applications within

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

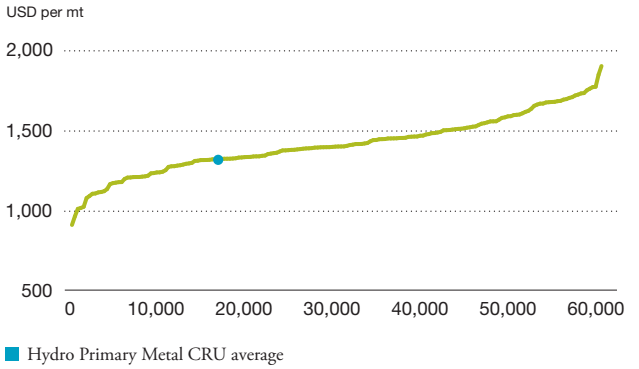
Cost developments
World average production costs (business operating costs) decreased in 2016 primarily due to lower operating costs in China. Outside China, operating costs also fell due to lower costs for alumina, power, labor and carbon among others. Currency movements also affected the relative position of companies on the cost curve. In 2016 developments in China were, in addition, influenced by improved casthouse premiums as a result of the improved market balance of primary metal in the Chinese market.

Strategy and targets - PM

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

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

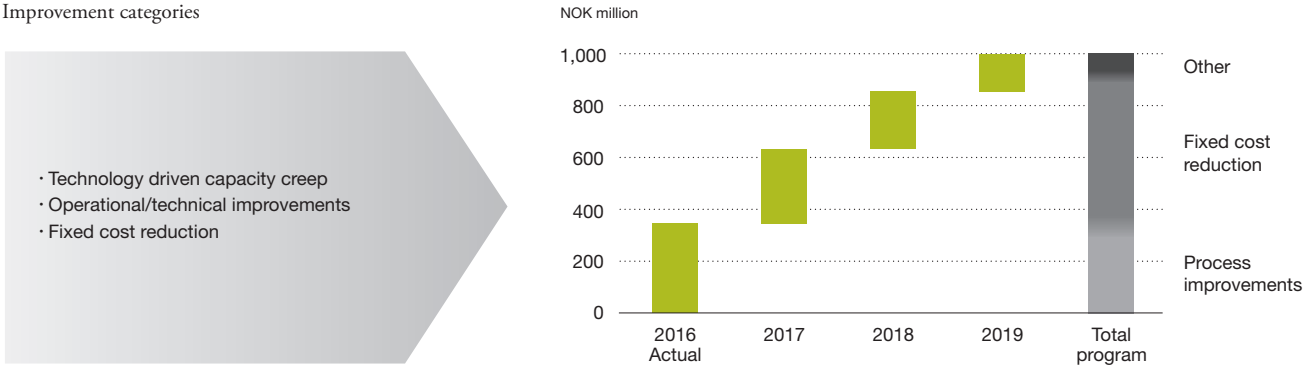
CRU global business operating cost curve by smelter



Further improve our average smelter-cost position
Primary Metals core strategy has been the continuous improvement of our smelter portfolio. The USD 180 per mt improvement program for our global joint venture smelters was completed by the end of 2016. We are targeting annual savings for our entire smelter portfolio of NOK 1 billion under the "Better Primary Metal" improvement ambition by the end of 2019, compared to baseline 2015. This includes increasing production capacity at our existing smelters through proven technological developments in addition to continuous operational improvements, and fixed and variable cost reductions.

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

Primary Metal improvement ambition



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

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Improve safety perfomance, strive for injury free environment[1)]	2.0	2020	2.0	2.4	●
	Realize ongoing improvement efforts Better Primary Metal	1 BNOK	2019	MNOK 290	MNOK 350	●
	Continued employee participation rate of more than 98 percent in My Way, Hydro's enhanced people perfomance and development system	98 %	Long-term	98 %	99 %	●
Bigger	Verify world's most energy efficient primary technology, including spin-off elements, with the Karmøy technology pilot	Start production Q4 2017	2017	100 % complete	70 % complete	●
	Realize technology-driven smelter capacity creep	200,000 mt/yr	2025	44,000 mt/yr	35,000 mt/yr	●
	Increase post-consumer and lower quality scrap recycling utilizing current casthouse capacity	150,000 mt/yr	2020	98,000 mt/yr	93,000 mt/yr	●
	Complete implementation of new AFM casting technology		2017	Complete installation of AFM technology	Installation of AFM moulds completed	●
Greener	Continued improvement of exposure to work environment factors [2)]	5% annual improvement	Long-term	5%	5%	●
	Reduce CO2 emissions /mt aluminium from electrolysis[2)]	Follow EU ETS benchmark	Long-term	1.57	1.61 [3)]	●

1) TRI total recordable injuries per million hours worked, includes combined performance for Primary Metal and Metal Markets. TRI includes both employees and contractors.
2) Noise, dust, chemicals, ergonomics, heat/cold etc.
3) The figure might be subject to minor change following final verification by authorized third party according to EU ETS regulation.

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

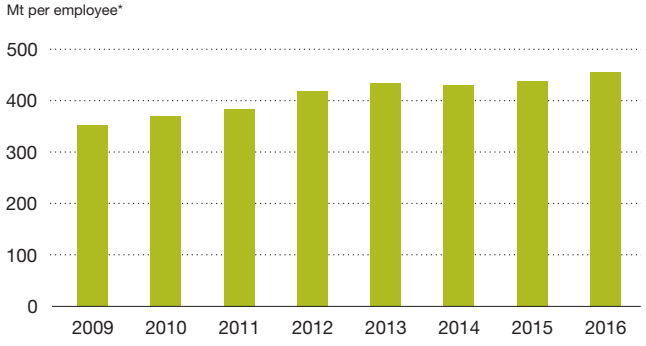
Advance our operational excellence and technological leadership

Primary Metal focus on extracting measurable benefits from the application of our Aluminium Metal Business System (AMBS), a methodology designed to ensure best practices and operating efficiencies across our portfolio. AMBS is a key enabler underlying our improvement efforts and incremental increases in our production volumes. Primary Metal is also developing new proprietary smelting technology with the aim to improve our cost competitiveness, strengthen our environmental standards and support our long-term growth ambitions. This includes the construction of a 75,000 mt pilot plant utilizing our next generation technology, HAL4e, targeting an energy consumption of 12.3 kWh/kg. Experience gained from the pilot is expected to contribute to further incremental capacity increases in our existing portfolio and productivity improvements.

Focus on selective growth projects

Primary Metals growth ambitions are directed toward projects with the potential to improve Hydro's cost position and smelter portfolio, and at the same time, maintain a strong focus on sustainable development. The Karmøy pilot project is on schedule to produce its first metal during the fourth quarter of 2017. The pilot plant can serve as basis for a potential future expansion of primary production in Norway. There is also potential to expand the low-cost Alouette smelter in Canada from 600,000 mt to 950,000 mt (100 percent basis. Hydro share, 20 percent). Investments in these projects are dependent on ongoing developments in the balance between industry production capacity and market demand, as well as favorable framework conditions both in Norway and Canada.

Strong performance culture



* Includes all permanent employees within the Primary Metal business area

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

Operations - PM

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

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

Realized aluminium prices are the most important revenue driver. Prices are fixed on average one month prior to production. As a result, and due to the hedging of product inventories, Hydro's realized aluminium prices lag LME spot prices by around 1 to 2 months.

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

Aluminium smelter system
Hydro is one of the world's largest producers of primary aluminium, with installed capacity in 10[3)] wholly or partly owned plants in 2016. In 2016, we produced around 2.1 million mt of primary aluminium, which is around 90 kmt below full capacity, affected by the partial curtailment at the Husnes plant in Norway. Following a restart of the curtailed capacity at Sunndal in 2015, only Husnes continues to have curtailed capacity, of around 50 percent of total capacity. See the section, Financial and operating performance, for actual electrolysis and casthouse production for the years 2016 and 2015.

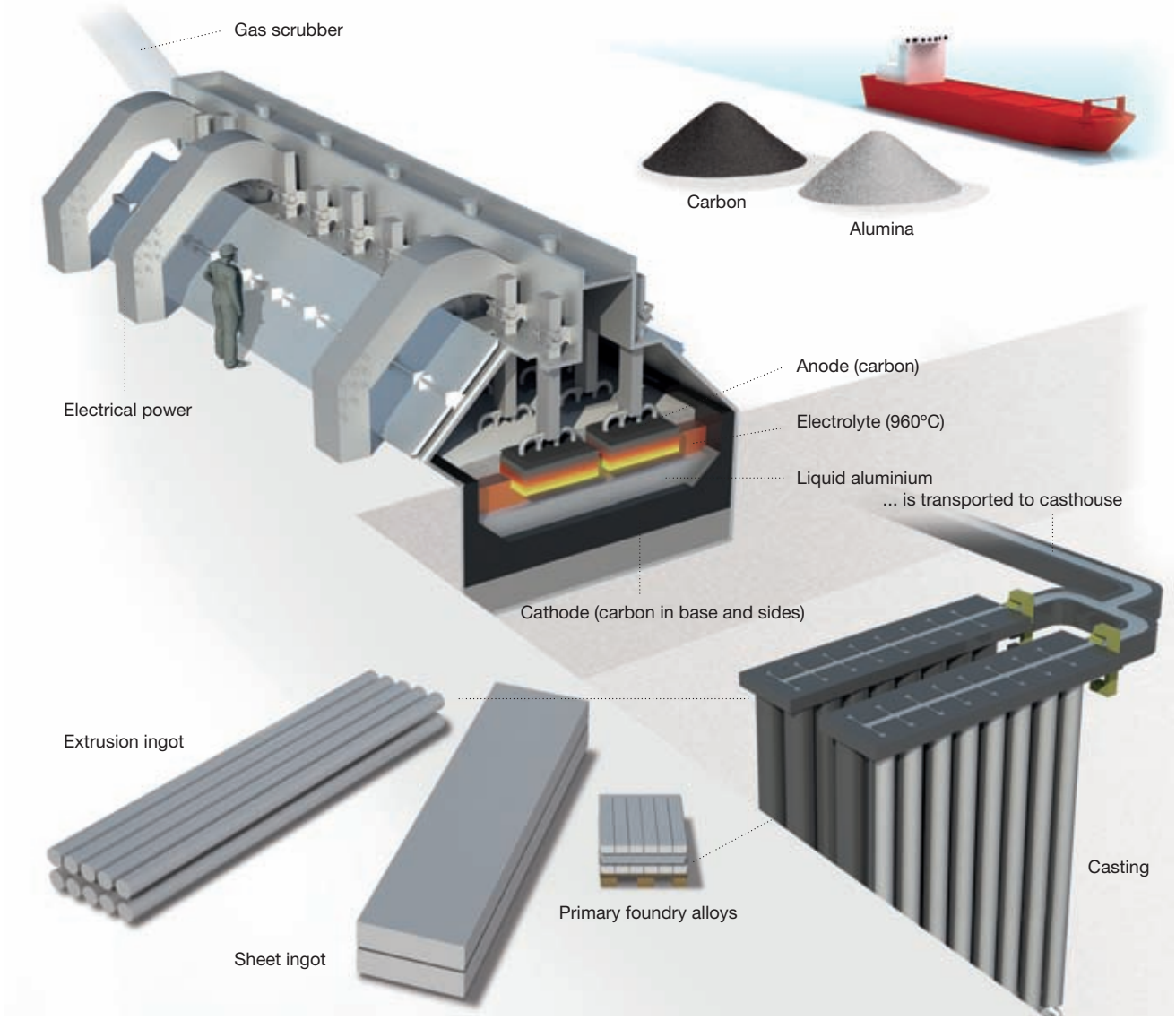
Internal supply contracts between our hydro power production operations and our aluminium metal business covered about half of the energy consumption of our wholly owned Norwegian smelters in 2016. The remainder was mainly covered by an external supply contract with Statkraft, a Norwegian electricity company. The contract will expire in 2020.

Hydro has entered into various new power supply contracts, adding up to a total annual supply of 4.75 TWh for the period 2021-2030, 1 TWh for the period 2031-39, securing a significant part of the power consumption required by our Norwegian smelters for these periods.

Electricity for Qatalum is provided by an integrated natural gas-fired power plant supplied with gas by Hydro's joint venture partner, Qatar Petroleum. Albras purchases electricity from the Tucurui hydroelectric power plant under a long-term agreement with Eletronorte. Alouette, Hydro's part-owned aluminium plant in Canada, purchased electricity from the supplier Hydro Quebec. In 2016, Alouette signed a new contract with new terms and conditions extending the existing supply of electricity for a 13 year period to 2029. Electricity for the remainder of our smelter system is covered under medium to long-term contracts.

Technology and innovation
Primary Metal has a significant R&D portfolio in order to strengthen our competitive position, reduce operating costs and improve our environmental footprints in Hydro's smelters. Development and testing activities throughout 2016 have further confirmed our ability to reach the ambitious productivity and energy consumption targets of our next generation technology platform, HAL4e. The ongoing construction of the Karmøy technology pilot for industrial verification of this technology is expected to be

Aluminium smelting process



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

finalized in the fourth quarter of 2017. Testing and verifying the HAL4e technology in the Karmøy pilot will give valuable learning, and will as such also give vital input to the further increased productivity and reduced energy consumption development of the existing Primary Metal smelter portfolio. An implementation program is being established in order to accelerate implementation of HAL4e technology elements, physical as well as control system related, in existing plants.

Innovation activities related to digital transformation have been increasing through the last couple of years. Systems and structures are now in place to secure focus and direction towards the long term ambition of developing an autonomous cell and an automated smelter. This development is expected to be an enabler for further improving cell productivity and performance.

Environment

Aluminium smelting is an energy intensive process. However, approximately 70 percent of the electricity used in Hydro's smelters is provided by hydro power. A substantial portion of the remainder (around 20 percent) is provided by natural gas. On a world-wide basis electricity used for aluminium production based on hydroelectric power is about 36 percent and 8 percent is based on natural gas. The Intergovernmental

Plant	Country	Employees (per Dec. 31)	Electrolysis capacity (000 mt) [1]	Casthouse capacity (000 mt)	Main products	Key characteristics [2]
Karmøy	Norway	431	196	240	extrusion ingot, wire rod	• Two prebake lines • R&D center and rolling mill
Årdal	Norway	534	196	330	sheet ingot, foundry alloys [3]	• Two prebake lines • Substantial anode production • Technology and competence center
Sunndal	Norway	694	406	525	extrusion ingot, foundry alloys	• Two prebake lines • Largest and most modern plant in Western Europe • R&D center metallurgy and casting
Høyanger	Norway	159	66	120	sheet ingot	• One prebake line
Husnes	Norway	237	187 [4]	200	extrusion ingot	• 100% Hydro owned from Nov 2014 • Long term power contract expiring end of 2020
Slovalco (55.3%)	Slovakia	486 (100% basis)	174 (100% basis)	191 (100% basis)	extrusion ingot, foundry alloys	• Joint venture with Penta (Slovakia) • One prebake line • Long-term power contract expiring end of 2021
Tomago (12.4%)	Australia	977 (100% basis)	74	67	standard ingot, extrusion ingot, sheet ingot	• Joint venture with RTA and GAF • Three prebake lines • Largest producer in Australia • Among world's lowest cost smelters
Qatalum (50%)	Qatar	1168 (100% basis)	307	320	extrusion ingot, foundry alloys	• Joint venture with Qatar Petroleum • Two prebake lines • Among the world's lowest cost smelters • 40 year gas supply contract expiring in 2049
Alouette (20%)	Canada	863 (100% basis)	122	150	standard ingot,	• Joint venture with RTA, AMAG and IQ/Marubeni • Two prebake lines • Largest producer in North America • Among the world's lowest cost smelters • Long term power contract expiring end of 2030
Albras (51%)	Brazil	1136 (100% basis)	460 (100% basis)	425 (100% basis)	standard ingot	• Joint venture with NAAC • 4 prebake lines • Largest producer in South America • Long term power contract expiring end of 2024

1) Production and casthouse capacity for part-owned companies represents our proportional share. Slovalco and Albras are fully consolidated in terms of volumes and financial results. In addition to the production capacity indicated in the table above, Rolled Products' Neuss smelter located in Germany has an annual electrolysis capacity of 235,000 mt.

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

3) Curtailment of foundry alloys from the middle of 2012.

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

Panel on Climate Change (IPCC) recognizes natural gas as an important transition fuel that can help reduce global temperature increases.

Primary Metal is Hydro's largest consumer of energy and has the largest combined direct and indirect greenhouse gas emissions. In 2016, direct greenhouse gas emissions from the company's primary metal production, based on ownership equity, amounted to 3.6 million mt . Indirect emissions from electricity production was 3.9] million mt. Direct emissions of CO_2 equivalents per mt of aluminium from electrolysis was 1.61 up from 1.60 in 2015. The reason for the increase in 2016 was restart and production challenges after power supply failure in Årdal. The main source of direct CO_2 emissions from Hydro's smelters is the consumption of carbon anodes.

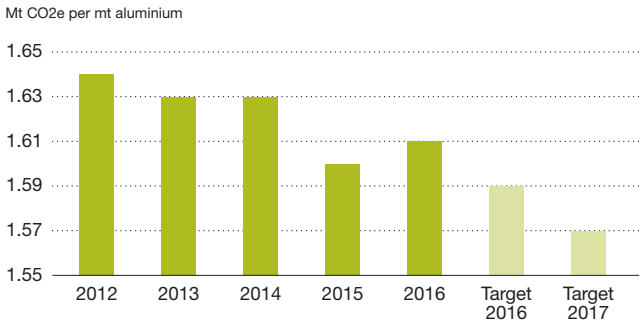
Hydro recognizes that we have a fundamental responsibility to develop solutions to reduce the total greenhouse gas emissions associated with our business activities. See Viability Performance section later in this report for more information regarding our climate strategy and how aluminium products can contribute to reduced energy consumption and greenhouse gas emissions.

Spent potlining (SPL) from electrolysis cells and anode waste are hazardous waste generated from the production of primary aluminium. Hydro has reduced relining costs and the volume of SPL produced by extending the life-time of the pots. In addition, Hydro has identified that SPL materials can be used as an energy source in the cement and insulation industry where the production process and high temperatures ensure destruction of hazardous components. This represents an efficient use of resources while reducing landfill and related costs. Hydro in cooperation with the Norwegian Environmental Agency have started the work to revise the environmental permits for Hydro's smelters in Norway. The new permits are expected to be in place by the end of 2017 and to be within the new EU environmental emission limits.

People

Primary Metal, including Metal Markets[4] had 4,653 permanent employees in its consolidated activities at the end

GHG emission intensity – electrolysis

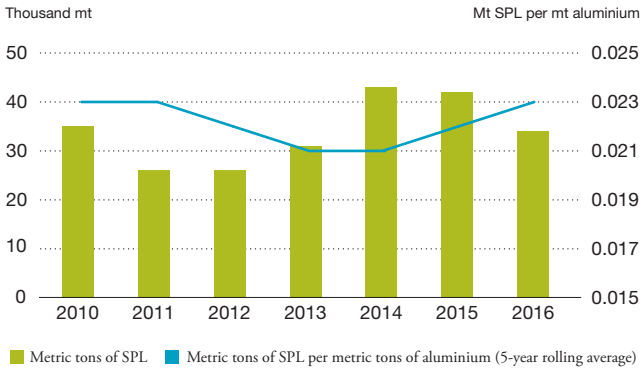


Includes greenhouse gas (GHG) emissions from electrolysis in primary aluminium production in Hydro's consolidated activities.

of 2016 and 726 temporary employees including trainees. We have a responsibility to provide a safe work environment and believe that this promotes efficiency and lower operating costs. We monitor and drive ongoing safety improvements by systematic measuring and reporting of injuries. Through deployment of our Work Environment Risk Assessment (WERA) process we have reduced employee exposure to hazards within our operations by 5 to 15 percent annually in the last 10 years. This includes reduction of exposure to noise, dust, heat, fumes, chemicals and vibration. As hearing impairment has been increasing, focus has been on reducing noise.

Our AMBS system helps to ensure empowerment and development of our people across our organization. AMBS has provided a foundation for our USD 300 per mt

Spent potlining (SPL) from aluminium production



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

Figures include historic SPL output from current majority-owned operations, with the exception of Husnes. Husnes was fully acquired during 2015 and collection of historic data is not yet completed.

improvement program and is expected to help us achieve our new improvement ambition of NOK 1 billion by the end of 2019. My Way, our internal performance and development process, and Hydro Monitor, our employee engagement index, are important tools to engage our people and enhance the performance and development of our organization. In 2016, more than 98 percent of Primary Metal's employees (including Metal Markets) participated in My Way.

Diversity in the organization is important to us, in particular related to age and gender. A comprehensive diversity awareness training program has been run at management level at all plants, and will be further introduced at more levels in each unit. In 2016, 40 percent of the technology graduates (MSc) were women. We also emphasize the need to recruit more female operators and promote the workplace as fit for both genders, motivating young women to seek vocational training in the process industry.

Society

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

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

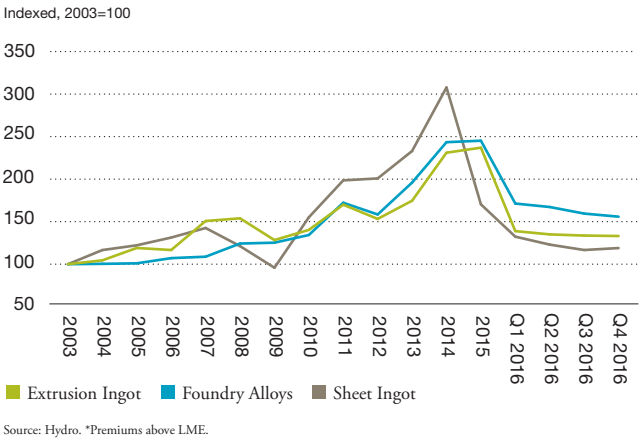
Hydro's supplier requirements regarding corporate responsibility form an integral part of our procurement process. Several of the suppliers for our smelting operations are based in developing countries dealing with certain environmental and social issues. We have risk based mechanisms in place to assess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

Metal Markets

Strategy and targets - MM

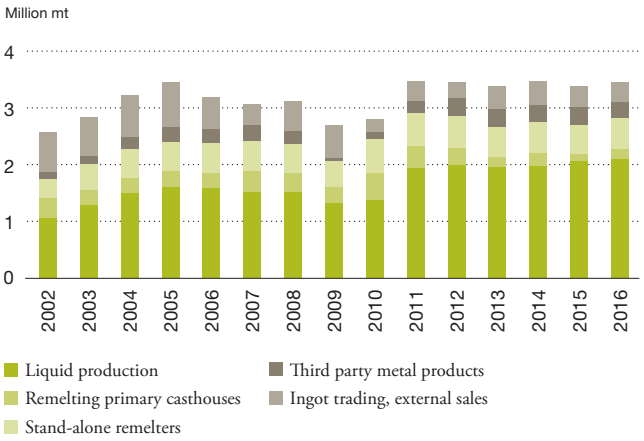
Hydro's flexible and extensive multi-sourcing system enables us to rapidly adjust our remelt and recycling production to market demand. We intend to continue capitalizing on this flexibility to secure our market position and create additional value on top of LME for our production capacity. We will also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

European premium development*



Source: Hydro. *Premiums above LME.

Sales of casthouse value added products and ingot trading



sourcing and recycling of post-consumer scrap we will improve our profitability and contribute to reaching our ambition to become carbon-neutral in 2020. Global optimization of Qatalum sales volumes continues to be key priority.

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

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

Grow recycling capabilities
We have built a strong position in the metal products markets to optimize the capacity of our integrated casthouses and stand-alone remelters offering value-added products to the marketplace. Our ambition is to take a strong position in aluminium recycling to improve our cost base and reduce our carbon footprint. To increase our recycling capacity we acquired a scrap shredding and sorting company in St.Peter, Dormagen, Germany in 2015 and have introduced additional recycling capacity in our Clervaux, Luxembourg facility during 2015 and 2016. We plan to further increase our capability and capacity to use post-consumer and other types of contaminated scrap and identify new sources of raw materials. With implementation of our global scrap network we will improve communication and cooperation between the regions, generating synergies in our operations. We also plan to continue to increase sales of recycling friendly alloys from our remelters.

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

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

Operations - MM

Metal Markets is responsible for all sales and distribution activities relating to products from our primary metal plants and our stand-alone remelters. We operate seven remelters, which recycle mainly scrap, but also standard ingot [5] into new products. We also market metal products from our part-owned smelters and third parties, and engage in other sourcing and trading activities, including hedging activities on behalf of all business areas in Hydro.

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

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

Our results can be heavily influenced by currency effects [6] and ingot inventory valuation effects [7]

Competitive strengths

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

Remelting

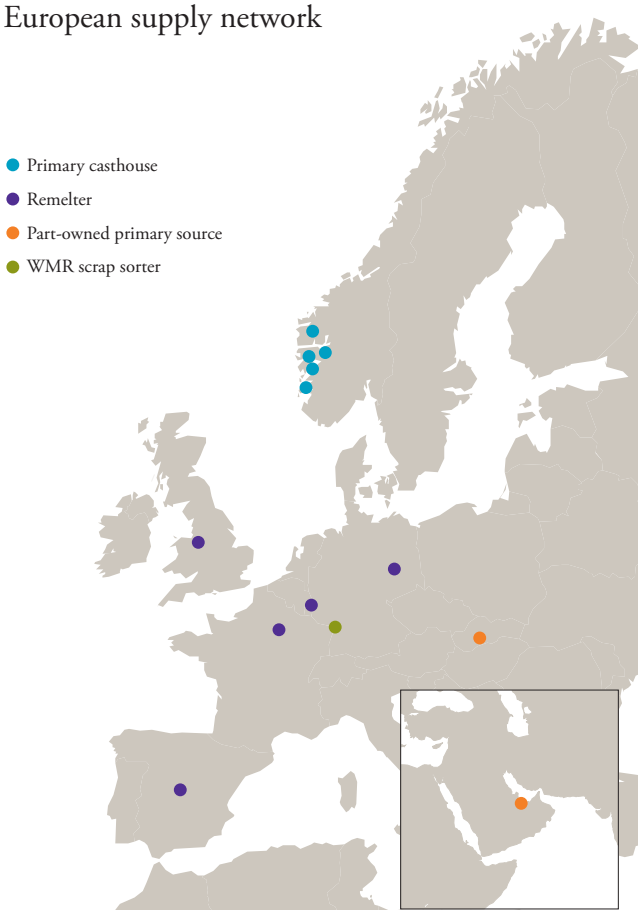
We have a network of seven stand-alone remelt plants that convert scrap metal and standard ingot into extrusion ingot. We have five plants in Europe and two in the U.S. with a total capacity of about 0.6 million mt, roughly 0.4 million mt of which is located in Europe. Our remelters in Europe are located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

Sourcing and trading

To supplement our own equity standard ingot production, we source standard ingot for remelting in Hydro's remelters and primary casthouses from third parties. Third-party contracts are also executed in order to optimize our total portfolio position and to reduce logistics costs. We also sell standard ingot to external customers.

Our main risk management objectives are to achieve an average LME aluminium price on smelter production,

European supply network



matching the average customer pricing pattern, and to secure margins in our midstream and downstream businesses. Our sourcing and trading operation acts as an internal broker for all LME-hedging transactions by our business units in order to consolidate Hydro's exposure and reduce transaction costs. [8]

Markets, products and customers

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

Foundry alloys are sold to foundries producing cast parts primarily for the automotive industry. With Qatalum tonnage Asia has become our most significant market for this product. Sheet ingot is sold to European rolling mills, with

packaging and transportation as the most important end-use segments. Wire rod is sold to wire and cable mills in Europe for power transmission and other electrical applications.

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

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

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

Quality improvements are closely linked to our customer technical service, addressing customer needs while improving our own casthouse process. We develop new alloys with distinct properties to support the development of new or enhanced applications within the automotive, building, electronics and other industries. This work begins with developing an understanding of metallurgical processes that form the basis for sample compositions and production methodologies carried out in laboratory or test production facilities. Finally, full scale testing is done often together with customers or end users.

Recycling of post-consumer scrap is an important activity to enable reduced costs and increased capacity utilization as well as contributing to the reduction of the carbon footprint of our products. Our casting and alloy expertise enables us to produce products that can be recycled and used as raw material for high quality semi-finished products. Developing products that optimize the use of recycled material is another focus area. In 2015 Hydro acquired a scrap shedding and sorting operation in St.Peter, Dormagen, Germany. The plant is utilizing advanced sorting technology enabling us to pre-process contaminated scrap before it is remelted in our dedicated casthouses.

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

In 2016, Hydro recycled 1.2 million mt of aluminium on a combined basis, up 8 percent compared to 2015.[9] Of this, 138,000 mt was post-consumer scrap, an increase of 3 percent during the year.

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

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

Rolled Products

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

Worldwide consumption amounted to approximately 25 million mt in 2016 in which foil, can and transport were the largest segments. Europe and North America represent around 20 percent of world consumption each. The five largest producers in Western Europe supply about 70 percent

of the European market. China is the largest single market, representing around 35 percent of global consumption.

The export of semi fabricated and fabricated aluminium products from China to the rest of the world has steadily increased over the last several years, driven by the utilization of Chinese production overcapacity as well as export tax rebates provided for several semi-fabricated products.

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

Strategy and targets - RP

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

Building on our strong market position

Differentiation is a key element of our strategy, striving for solutions to best serve our customers. In close cooperation with our customers we work on quality and service improvements. For one of our customers in lithographic sheet for example, we were able to reduce plate cracking in their printing shop by 90 per cent by developing a new alloy. For our US lithography customers, we have run an initiative that reduced lead time from 11 to 6 weeks, thus defending our position as global market leader in lithographic sheet. In cooperation with Aachen university institutes ika/fka, Hydro has developed a full-aluminium car body that satisfies industry benchmarks on safety and stiffness, while reducing the weight by around 100 kg compared to the traditional steel car body. In special products we strengthened our solid position in Europe through high-grading our product portfolio supported by our local technical customer service and our central research and development center. We regularly survey our customers' perception of us and in 2016 were recognized with awards from customers, associations and other industry bodies.

Based on the strong demand growth in the automotive Body-in-White market segment, we have finalized a new production line to lift our nominal capacity for aluminium car body sheet to 200,000 mt per year. The line includes a dedicated skin pass mill for special EDT surfaces for enhanced formability of the material. Trial production commenced in October 2016 and the project has been executed on time and budget.

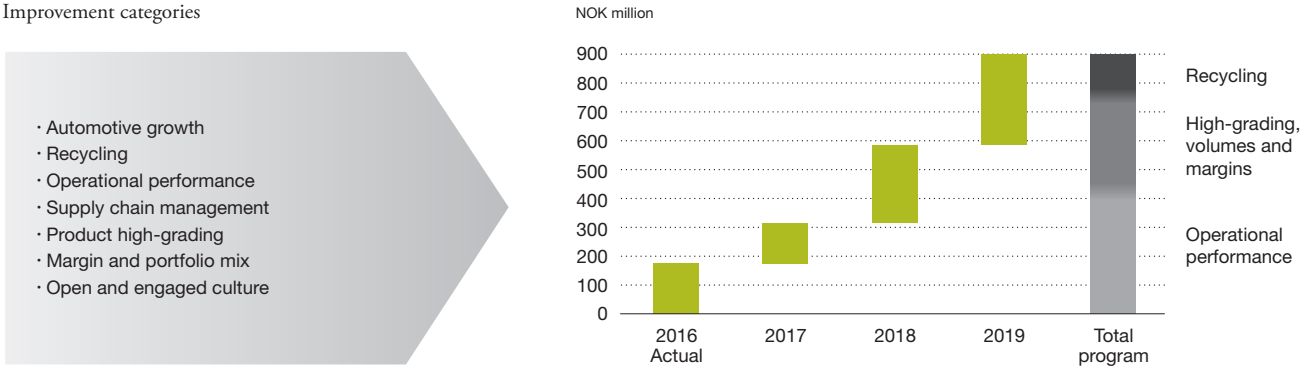
As a major step in our recycling activities, the new Used Beverage Can (UBC) Recycling Line was opened in our Rheinwerk smelter in Neuss, Germany. The line is part of our unique aluminium cluster and is offering economically attractive low grade scrap sorting by using the most advanced sorting technology available. Ramp up is still ongoing, full output is expected in the second half of 2017.

Strengthen our performance in Environment, Health and Safety

Rolled Products is a key contributor to Hydro's overall carbon-neutrality ambition. Through the reduction of energy consumption in Rheinwerk smelter and an energy efficiency program for our rolling mills we are reducing emissions and increasing efficiency. The targeted increase in volumes sold to the automotive market as well as numerous other flat rolled products in use contribute to maximizing 'use-phase benefits'. Finally, our new UBC line contributes to increasing recycling post consumed scrap.

With strong focus on risk reduction and leadership combined with training schemes to increase awareness, the safety performance improved significantly in 2016 with a reduction

Rolled Products improvement ambition



Mid-term strategic goals Rolled Products

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Improve safety performance - injury free environment	TRI < 2	2020	3.5	4.0	●
	Deliver on new improvement ambition "Better Rolled Products"	900 MNOK	2019	140 MNOK	175 MNOK	●
	Differentiate through product innovation, quality and service	min. 1 step change/yr	annually	1 step change	Cu-free header for HeX [1)]	●
Bigger	Increase nominal automotive BIW capacity	200,000 mt [2)]	2017	200,000 kmt	Trial production started	●
	Build up UBC recycling capacity	>40,000 mt	2017	Ramp-up completed	Started, delayed ramp-up	●
Greener	Lift post-consumer scrap recycling	>100,000 mt	2020	56,000 kmt	44,000 mt	●

1) Heat-Exchanger
2) Refers to nominal capacity

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

in the TRI rate for own employees by 37 percent and contractors by 46 percent, achieving the target we had set for 2016. To improve safety performance, we will continue our efforts on risk management, supporting a further reduction in accident severity. A safety and leadership academy has been established and rolled out for all line management functions. Further lifting our operational performance is based upon our Rolled Product Business System (RPBS) implemented in all plants. Improvement initiatives comprise measures to reduce energy consumption, scrap and claim rate and also to improve on overall cost level, productivity and safety.

Achieve targeted improvements

Our improvement ambition, "Better Rolled Products" with the goal to generate annual revenue and cost improvements of NOK 900 million by 2019 compared to revenue and cost levels at the end of 2015 is progressing. Operational improvement, portfolio high-grading and recycling are central elements in addition to supply chain management. In 2016 improvements amounted close to NOK 200 million, somewhat less than planned mainly impacted by a delay in the UBC Recycling line. Rolled Products still expect to achieve our full program target by 2019. Significant contributions will come from the new Body in White automotive line, which will begin to contribute from 2017.

Ambitions going forward

Renew, a cultural enhancement program to lift cooperation and engagement to enable us to achieve our Better – Bigger – Greener targets was launched in 2015 and continued in 2016. This increased focus on cooperation and engagement lead to an 8 percent increase in the people engagement index for the Hydro Monitor employee survey in 2016. We are committed to a safe working environment and to eliminating accidents in our operations. We aim to increase the returns of our business operations, concentrating on operational excellence and involving all employees in continuous improvement. We intend to develop and improve our market share by leveraging our preferred supplier position in the market. With a focus on our strong position within lithography, foil, beverage can, automotive and special products, we will continue to emphasize the quality of our products and services to our customers. We will pursue growth opportunities and keep our focus on innovation and technology to sharpen our competitive edge.

Operations - RP

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

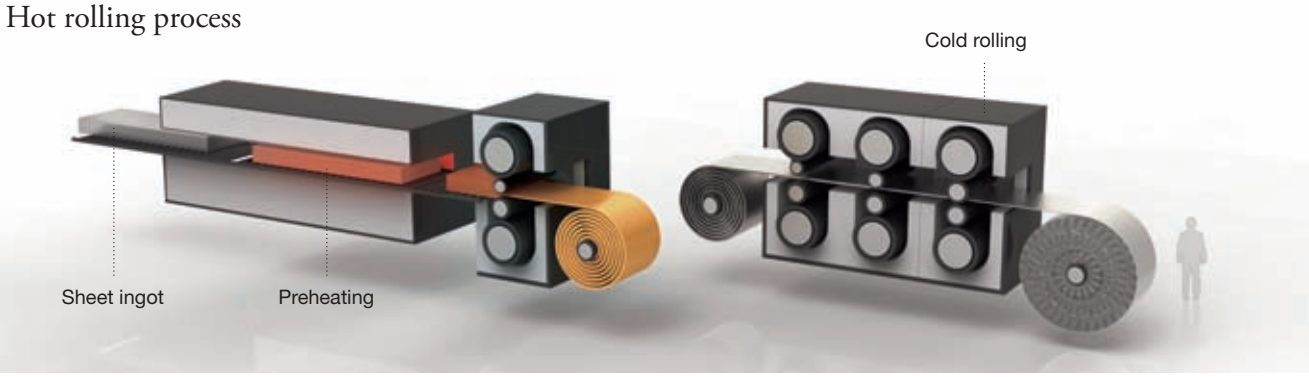
Cost and revenue drivers

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

Competitive strengths

- Leading positions in high-end products including automotive, foil and lithographic sheet
- Solid position in the European rolling industry with estimated 15 percent market share in Europe
- Global reach with around 35 percent export for high-end markets, serving key customers in the Americas, Middle

Hot rolling process



The slabs are preheated before entering the hot reversing mill. The sheets are rolled to the desired thickness in the finishing mill.

East and Asia-Pacific

- Leading R&D facility dedicated to Rolled Products
- World class assets including AluNorf (Hydro share 50 percent), the world's largest rolling mill, and Grevenbroich, the world's largest multi-product finishing mill
- AluNorf, Grevenbroich, Rheinwerk smelter and R&D Bonn located in close proximity generating significant logistical advantages

Rolling mills

Following the divestment of the Slim plant in Italy at the end of 2015 our flat rolled products operations are located in Germany and Norway. We generated approximately 75 percent of our total sales in 2016 in Europe. More than half of our production was produced in the Grevenbroich/ AluNorf rolling system in Germany, one of the most modern and efficient rolling operations in the world. Grevenbroich is the center of our packaging, lithographic and automotive sheet operations. Our production network mainly comprises of so-called "wall-to-wall" processing, including an integrated casthouse combined with both hot and cold rolling mills.

One third of the metal used was sourced internally, based on arm's-length conditions related to LME and applicable premium prices. External supplies of liquid metal, sheet ingots, standard ingots as well as post-consumer and pre-consumer scrap from our customers accounted for two thirds of our total requirements in 2016.

Neuss smelter

Neuss is the largest aluminium smelter in Germany, with a primary metal capacity of 235,000 mt per year including one curtailed pot line. Beside the primary capacity Rheinwerk Neuss has a recycling capacity of 50,000 mt which was extended in 2016 by the start of a new, state-of-the-art UBC recycling line with a capacity of 40,000 mt. The plant supplies the near-by AluNorf rolling mill with primary and recycling based sheet ingots for processing and subsequent fabrication of rolled products in Grevenbroich. The Neuss smelter is an important element of this integrated system and provides significant operating synergies.

Markets, products and customers

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

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

Global products

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

Automotive: We are the second-largest supplier of aluminium sheet and coil to the European automotive market for interior and exterior vehicle body parts, chassis and component applications. Key customers include Audi, BMW, Daimler, PSA and Jaguar Landrover. Production is concentrated within our Grevenbroich and Hamburg plants. To increase our car body sheet capacity we have invested in a new production line in Grevenbroich with start up in the fourth quarter of 2016.

Plant	Country	Capacity (000 mt)	Main products	Other characteristics
Grevenbroich	Germany	570	Packaging, lithographic sheet, automotive	• The world's largest multi-product finishing mill • Supplied by nearby AluNorf rolling mill
Alunorf 50%	Germany	800	Packaging, automotive, general engineering	• The world's largest rolling mill • 50/50 joint venture with Novelis • Partly supplied with sheet ingot from nearby Rheinwerk smelter • Integrated cast house, based on remelting and recycling
Hamburg	Germany	165	General engineering, automotive, heat exchanger	• Integrated casthouse and recycling
Karmøy	Norway	90	General engineering	• Continuous casting
Holmestrand	Norway	90	Building, general engineering	• Integrated casthouse, recycling center
Neuss	Germany	235 primary 40 (UBC)	Liquid metal and sheet ingots	• Integrated casthouse and recycling • One potline curtailed • UBC recycling center
Dormagen	Germany	45	Automotive	• Slitting

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

*Foil: W*e serve customer needs in the rigid and semi-rigid packaging industry, offering plain and converted foil and strip. We provide packaging solutions combining high-quality manufacturing with innovation, cost effectiveness and sound ecological characteristics. We also offer a wide range of services relating to our packaging products in terms of consulting and technical support. We are specialists in thin-gauge foil for flexible packaging, offering foil as thin as 5.0 µ m for the packaging of food as well as for technical applications, including converted qualities with a variety of lacquered, laminated and coated finishing. Tetra Pak, Amcor Flexibles and Constantia Flexibles are key customers. Production of packaging is mainly concentrated in our Grevenbroich rolling mill.

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

Special products

General Engineering: Hydro is a leading supplier of hot and cold rolled aluminium strip and sheet, offering a comprehensive range of products tailored to meet the individual requirements of a variety of applications in the industrial and consumer products sectors. Products include coil and sheet for wholesalers and end-producers. We operate modern and efficient manufacturing processes, offering quality products and extensive technical support.

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

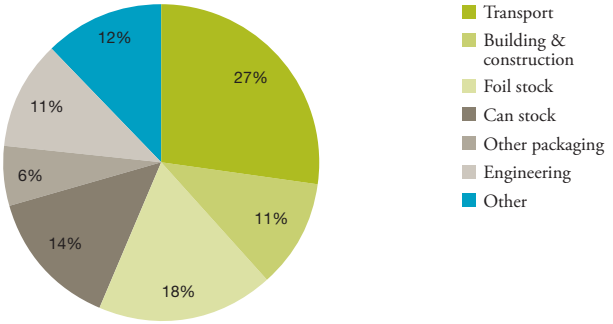
Technology and innovation

Based on continuous research and development at our dedicated R&D center in Bonn, Germany, we differentiate our business through innovative products, processes and services that save resources, reduce emissions and increase performance. Customers benefit from this added value, which increases our market share and margin contribution. We cooperate with customers to develop innovative solutions, through R&D and our sophisticated technical customer service. Supported by our advanced scrap

Business unit	Shipments in %	Key characteristics
Global products	68	• Largest producer in the lithographic products market • Serving OEMs and their suppliers with strip and sheet for automotive body, component and chassis applications • Automotive and non-automotive heat-transfer applications • Beverage can and foil with leading position in the high value-added liquid packaging market
Special products	32	• General engineering products mainly used in industrial applications • Lacquered building products

Flat rolled products consumption Western Europe 2016

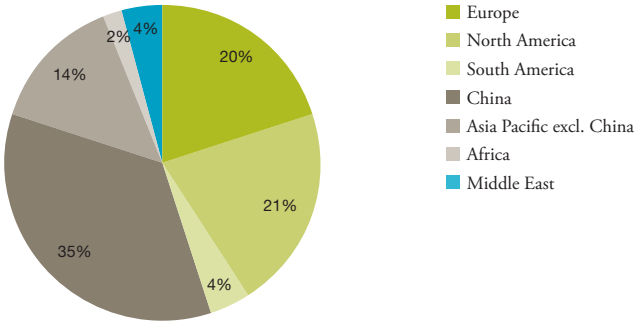
Total market 4.2 million mt



Source: CRU quarterly November 2016

Flat rolled products consumption Global 2016

Total market 25.0 million mt



Source: CRU quarterly November 2016

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

Rolled Products has established itself as innovative partner to the customers. For our customers in heat exchanger applications for example, we have developed a copper free header material. Header tubes made of flat rolled products are often combined with Multiport Extruded tubes (MPEs). The standard header material is containing copper, which is galvanically not compatible with MPEs and can therefore lead to corrosion and field failures in the worst case. Our new material is significantly enhancing corrosion resistance and gives us a unique selling proposition through product innovation.

The new Automotive line in Grevenbroich, Germany, has started trial production in October 2016. First coils have been delivered to customers, qualification is ongoing with all major European OEM's. One of the major innovations in the design of this line is the included dedicated skin pass mill, dedicated to produce so called EDT (Electron Discharge Texturing) surfaces, needed for optimum formability of automotive body sheets. This line constitutes a step change in the production of state-of-the-art EDT surfaces with highest formability.

Sorting of 5xxx and 6xxx alloys, which are the main alloys in automotive, is a main issue with regards to recycling of automotive scrap. Based on LIBS (Laser-induced breakdown spectroscopy) technology Austin AI, Inc. has developed a solution for sorting these alloys. A cooperation and development agreement has been signed between Austin AI, Inc. and Hydro and a pilot scale sorting line is going to be installed at our R&D center in Bonn in 2017.

Environment

Aluminium has numerous advantages in terms of energy savings and reduced greenhouse gas emissions in the use phase stage of the overall life cycle. Our sophisticated technical customer service department works closely with our customers to develop innovative and cost efficient solutions to take advantage of these qualities.

Light-weight aluminium products used in the transportation industry reduce fuel consumption and emissions. Our production of automotive body sheet is one illustration of how we contribute to reducing CO_2 emissions while continuing to grow our business.

A further example can be seen in the superior food preservation properties of aluminum packaging. Food packaging which utilizes aluminium requires less energy to cool and also reduces the amount of waste due to food degradation.

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

The majority of products such as these are developed by our world leading, in-house simulation team, which utilizes the latest computer aided process design and alloy development tools. Our sophisticated modeling not only delivers optimum results, but also provides all the necessary information for

efficient application by our customers. Thus, our customers benefit from this added value, which, in turn increases our market share and margin contribution.

Compared to Hydro's upstream operations, Rolled Products' environmental footprint is relatively small and mainly within the vicinity of our production sites. The main environmental impacts include CO_2 emissions, noise, odor and traffic volume.

Most of our Rolled Products operations are in water-stressed areas with regard to annual renewable water supply (as defined by the WBCSD). Although water supply in these areas is well-regulated we continue to follow European policies such as the Water Framework Directive, while also evaluating measures to reduce water consumption internally.

People
Rolled Products had 4.044 permanent and 282 temporary employees in its consolidated activities at the end of 2016. The Renew initiative started in 2015 gained speed in 2016 and aimed at increased involvement, trust and cooperation of all employees as part of our improvement ambitions. My Way, our internal performance and feedback process, is an important tool to engage our people and enhance the performance and development of our organization. My Way is implemented in all RP units and the participation rate is close to 100 percent. The Hydro Monitor, our employee survey, showed an Employee Engagement Index which rated Rolled Products to the top 10 percent in industry benchmark.

In 2016 the new HR organization "HR Connect" was developed for Germany and went live in December 2016. The HR Business Partners are part of the different management teams and take care of strategic HR topics. The HR Competence Center Germany supports line management by all administrative processes.

Diversity (especially gender, cultural background and age) is high on the agenda as well as our employer branding activities in Germany and Norway. Both aim at employing and development highly talented individuals in our organization.

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

With respect to our supply chain, the area of corporate social responsibility (CSR) forms an integral part of our procurement process. All of our suppliers are required to undergo a comprehensive selection process, including risk assessments and on-site audits, to ensure our continued compliance with local regulations and Hydro's own internal requirements.

Energy

Industry overview - EN

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

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

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

Implementation of EU energy and climate regulations has and will continue to have a significant influence on energy prices and energy and climate policy in all EU/EEA countries. Emission trading has increased electricity prices by up to 50 percent in periods with high emission allowance cost in Europe, including the Nordic market where electricity is predominantly generated by non-emitting sources. There is, however, an ongoing EU legislative process aimed at reducing emissions and consequently increasing future allowance prices. In order to prevent carbon leakage, the EU established guidelines in 2012 allowing national governments to support industries exposed to global competition. Actual compensation, which is dependent on national implementation, is established in Norway and Germany with conditions corresponding closely to the EU guidelines. Please see section Regulation and taxation - Aluminum regulation - climate gases later in this report for more information on this matter.

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

Strategy and targets - EN

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

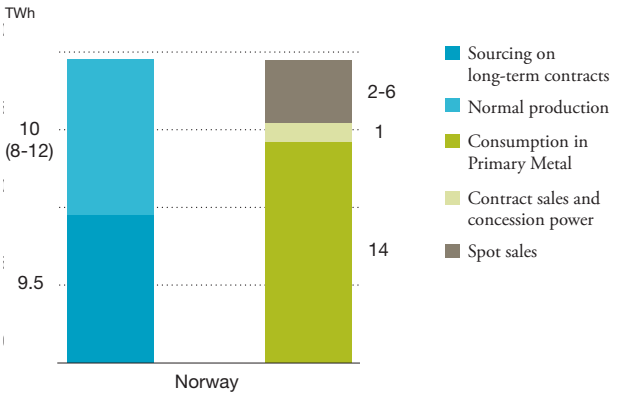
Develop our captive power capacity

Our ambition is to continually increase Hydro's share of captive power from renewable sources, and further explore opportunities within our existing concession areas in Norway. Securing and increasing the value of our energy assets is a key priority, based on our normal equity power production of 10 TWh.

Optimize power asset management and operational excellence

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

Generation and power sourcing in Norway



Sourcing competitive energy for our global operations

Access to competitive energy is a major success factor in our value chain. We have large energy exposures on nearly every continent. Hydro is engaged in a number of initiatives to identify and secure competitive energy supplies for Hydro's operations. In 2016, we entered into a contract with Nordic Wind Power DA to source 1 TWh of renewable energy for a 15-year period beginning 2021, and 0.7 TWh for the period 2035-39 in order to enable continued competitive aluminium production in Norway. During the year, power contracts were also entered into that fully supplied our smelter operations in Germany up to 2025. In 2016 Norsk Hydro Energia Ltda is in its second year of operation continuing as a vehicle for power market operations in Brazil. We are actively involved in promoting a responsible energy policy in the regions where we operate.

Operations - EN

Hydro is a global energy player, purchasing and consuming substantial quantities of energy for its smelters, rolling mills

Mid-term strategic targets Energy

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Improve safety performance, strive for injury free environment.	TRI<2	2020	TRI<2	TRI 0	●
	Secure new competitive sourcing contracts in Norway post 2020	4-6 TWh	2020	additional 1 TWh	1 TWh	●
	Support competitive energy supply as well as energy policy and framework development for other business areas	Progress	Continuo-us	Continuous progress	In progress	●
Bigger	Robust industrial ownership for RSK - maintain physical power offtake post 2022	3.0 TWh	2022	Mature options	Law amended	●
Greener	Deliver additional production volumes through upgrades/ sustaining investments	~0,1 TWh	2020	Continuous progress	~50%	●

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

and alumina refinery operations. In Norway, we are the largest private-owned power producer with operating and ownership interests in 26 hydroelectric power plants. Installed capacity was approximately 2,000 MW in total at the end of 2016 representing normal annual production of 10 TWh.[10] This corresponds to about 40 percent of Hydro's total electricity consumption worldwide. We also purchase above 9 TWh annually in the Nordic Market under long-term contracts, mainly from the Norwegian state-owned company Statkraft.

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

Competitive strengths
- Power coverage until 2020 with new contracts covering major part of our sourcing requirements beyond 2020
- Substantial captive power through equity hydropower in Norway and natural gas fired power in Qatar
- High share of renewable energy
- Low operating costs
- Operational and commercial competence
- Stable earnings and cash generation

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

Approximately two-thirds of our normal annual power production in Norway is subject to reversion to the Norwegian state with Røldal-Suldal (RSK) being the first significant production facility subject to reversion. The Norwegian Parliament amended the Waterfall concession act in June 2016. This implies that private entities are allowed physical hydropower offtake for ownership stakes below 33.4 percent in hydropower companies (ANS/DA model). This will enable Hydro to maintain access to physical power from our assets through restructuring the assets within a one-third ownership position in a company with liability. See Government regulation - Energy regulation and taxation for further information on this matter.

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

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

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

Environment
Hydroelectric power is a renewable energy source. However, there are several potential environmental impacts associated with Hydro's operations including changes in aquatic and terrestrial habitats along the waterways and impact on recreation and tourism. All of our reservoirs are located within or in close proximity to national parks and other protected areas in mountainous regions in Southern Norway including Hardangervidda and Jotunheimen. We limit vehicle traffic related to operations and maintenance of reservoirs that are within protected areas, and snowplowing to protect reindeer habitat. We monitor the impact of our operations on aquatic life in rivers connected to catchment areas. In order to mitigate the effects of water regulation on fish populations, around 86,000 fish spawn are launched annually in almost 40 lakes and rivers as part of concession requirements. Rehabilitation projects are also carried out to improve fish habitats and esthetic qualities. Stone refuse tips from tunnel construction are registered and rehabilitation performed or planned except for those that are protected as cultural heritage.

People
Energy had 187 permanent employees in its consolidated activities at the end of 2016 and 14 temporary employees including apprentices. We emphasize a safe work environment and believe that we can promote this while also delivering on efficiency and low operating costs. We monitor and drive safety improvements through systematic, preventive activities focused on controlling risks.

Our workforce is our most important asset. My Way, our internal performance and development processes, and Hydro

(Ownership percent)	Rated capacity (MW) (100%)	Normal annual production (TWh) (Hydro share)	Key characteristics / concession period
Sogn (100 %)			• Total catchment area 803 km^2
Tyin	374		• Concession expiration Tyin 2051 and Fortun 2057
Mannsberg	3		
Holsbru	48		
Skagen	252		
Fivlemyr	2		
Herva	35		
Total Sogn		**3.2**	
Røldal-Suldal Kraft (95.2%)			• Total catchment area 793 km^2
Middyr	2		• Concession expiration 2022
Midtlæger	3		
Svandalsflona	20		
Novle	48		
Røldal	172		
Suldal I	169		
Suldal II	155		
Vasstøl	5		
Kvanndal	45		
Total Røldal-Suldal Kraft		**3.0**	
Telemark (100%) [1)]			• Total catchment area 4 094 km^2
Frøystul	45		• No reversion except for Frøystul 50% 2044, Moflåt and Mæl 2049
Vemork	204		
Såheim	188		
Moflåt	32		
Mæl	38		
Svelgfoss	96		
Total Telemark		**3.5**	
Skafså (33%)			• No reversion
Åmdal	21		
Osen	15		
Skree	7		
Gausbu	7		
Total Skafså		**0.1**	
Vigeland (100%)			
Vigelandsfoss	26	**0.2**	• Exempted from reversion
Total		**10.0**	

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

Monitor, our employee engagement index, are important tools to enhance our people and organization performance and development. In 2016, nearly 100 percent of our employees participated in an appraisal dialogue through My Way. The Hydro Monitor survey is performed every second year, with the most recent completed in 2016.

Society

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

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

Sapa

Sapa is world leader in downstream aluminium solutions, with a global reach and local presence within extrusions, building systems and precision tubing. The company is a 50/50 joint venture combining the extrusion business of Hydro ASA and Orkla ASA. Sapa employs around 22,400 people in more than 40 countries. The company's headquarters are located in Oslo, Norway.

Joint venture transaction

On October 15, 2012 Hydro announced an agreement with Orkla ASA to combine their respective extrusion profile, building systems and tubing businesses. The transaction transformed Hydro's extrusion operations, improving the global reach of the combined operations and created a stronger foothold for Hydro in North America and several important emerging markets.

Industry Overview

Over the past several years there has been significant overcapacity in the extrusion industry in Europe and in southern Europe in particular. Combined with weak economic developments, this has led to increased market competition and restructuring activities within the industry including the Sapa transaction. Despite these developments, companies with high quality solutions, services and competitive costs, are able to defend margins that lead to sustainable returns.

The North American extrusion industry is more consolidated than Europe. However, margins remain under pressure despite market improvements and further consolidation within the industry. The market consumption of extruded products in South America is relatively low. Brazil represents over half of the South American extrusion market, followed by Argentina. Asia represents the largest consumer region for extruded products reflecting the ongoing investment in infrastructure and high level of construction activity.

Due to the sharp decline in the building market following the financial crisis in 2008, overcapacity in southern Europe and the U.K. has resulted in increasing competition within the European building systems industry.

Precision tubing is a global business mainly focused on automotive heat transfer applications. The market is relatively fragmented.

Operations

Sapa is the world's leading supplier of extrusion-based aluminum solutions. Market share at the end of 2016 was 22 percent in Europe and 24 percent in North America. Sapa also has a solid foothold in emerging markets with extrusion capacity in South America and in Asia. Sapa's extrusion operations serve a diverse customer base within the automotive, transportation, building and construction, electrical and engineering market sectors. Sapa operates in value added aluminium solutions, within the areas extruded profiles, building systems and precision tubing. The majority of the Building systems operations are located throughout Europe while Precision Tubing is a global business.

Sapa has an extensive network of production plants that ensures a global reach combined with a local presence. The majority of operations are located throughout Europe and in North America. Sapa also has a solid foothold in emerging markets with extrusion capacity in South America and in Asia.

Markets, products and commercial activities

Approximately one third of Sapa's products go to the building and construction markets, with the remainder split evenly between automotive, transportation, industrial and distribution market segments. Sapa's general extrusion business delivers custom made aluminium extrusions to customers in most industries. Local plants work closely with customers tailoring solutions with aluminium profiles and providing supporting services according to customers' needs. In North America, the extrusion business is organized to optimize capabilities across the continent while providing high-quality local service.

Sapa Building Systems (SBS) offers extensive geographic coverage and superior products in a European market that favors solutions linked to regional building habits and local preferences. Each of the brands represents a distinct system that enable our customers to target products to individual markets. Efficient distribution and logistics operations ensure quick and accurate deliveries. SBS is at the forefront in the development of products and solutions for energy-efficient buildings.

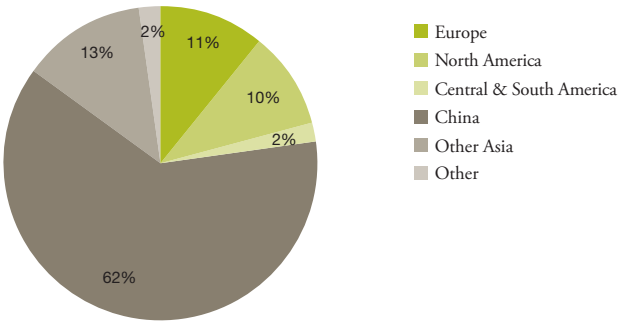
Sapa Precision Tubing (PT) produce and sell specialized products used in heat transfer applications, mainly for the automotive market, which represents about 70 percent of the total sales. PT is also active in the general heat transfer applications, a growing market segment, and applications for transporting liquids and gases. PT operates globally and has leading market positions in Europe, North America and South America, and a solid market position in Asia.

Technology and innovation

Sapa's research and development(R&D) teams collaborate closely with customers globally to develop new solutions, implement customer projects and continuous process improvement projects. The goal is to add value to the customers by delivering faster, better and more efficient development support.

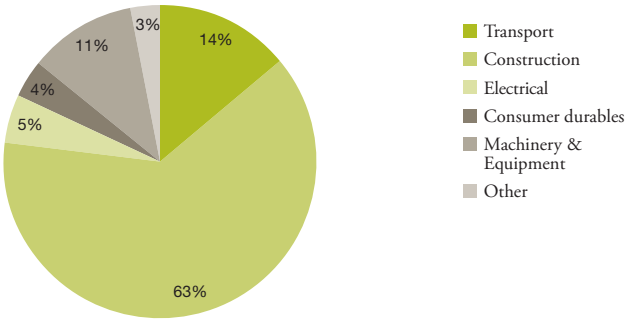
Sapa's corporate R&D department, Sapa Technology, concentrates on both long-term developments of value-creating technologies as well as shorter-term and more practical aspects, such as productivity and cost. One example of long-term developments includes a new dedicated offering to the marine industry, super-large and light friction stir welded panels extruded with the marine-dedicated 5083

Extrusion aluminium consumption* by region 2016
Total market 28.1 million mt



* Consist of semi fabricated products (included recycled aluminium)
Source: CRU LT 2016/Hydro

Extrusion aluminium consumption* by end use 2016
Total market 28.1 million mt



* Consist of semi fabricated products (included recycled aluminium)
Source: CRU 2016/Hydro

aluminium alloy. The new combination will enable shipbuilders to manufacture stronger hull structures while saving costs.

Sapa Technology is located in Finspång, Sweden and opened a new branch in Troy during 2016, located near the center of the automotive industry in the USA, Detroit. These sites are complimented by nearly 40 application centers around the world which focus on specific areas of competence, geographical regions, or industries. Examples include: European Extrusion Product Development, North American Technical Center, Building Systems R&D, and Precision Tubing Technology Center.

Environment

Environmental considerations are embedded in Sapa's business planning and decision-making. By the end of 2016, 98 percent of all Sapa's sites had fulfilled the target of being certified under ISO 14001.

All sites are required to set targets for energy use, CO_2 emissions, waste recycling, and water use.

There were no major environmental non-compliances in 2016, but there has been an increase in environment noise complaints in 2016. This is to be a key focus area in 2017. For more information, see note E8 to the Viability performance statements.

People

Sapa employs 22,400 employees in more than 40 countries. The company believes that HSE excellence will be achieved through the consistent implementation of the Sapa HSE management system; committed and visible leadership and full engagement of all employees in HSE activities. Sapa's 2016 safety performance deteriorated slightly in 2016 to a TRI level of 3.3 compared to 3.0 in 2015. The number of sites without recordable injuries (zero sites) increased to 69 from 66 the year before.

During 2016 Sapa further developed its approach to physical health, mental health and well-being. A new method to occupation exposure assessments has been developed and a focused strategy on work-related stress was agreed.

Sapa strives to offer an encouraging and stimulating environment, interesting career opportunities, and good working conditions to attract talented people. There are several ongoing global people processes which aim at reaching these ambitions. The Peak Performance process, Sapa's performance appraisal approach, aims to utilize capabilities across the company, and ensure that individual development plans are safe, compliant and in accordance with Sapa's values. The ultimate goal is to give every employee the opportunity to make a meaningful contribution toward the Sapa purpose and their own personal development. Senior managers perform twice a year an in-depth discussion about talent, to better understand the strengths, risks, and development needs in the talent pipelines. Information from development plans in the Peak process helps enrich the understanding of employees' aspirations, mobility, and thoughts about development.

Employee engagement impacts everything from injury rates to innovation. Every second year, Sapa conducts the company-wide employee engagement survey, which aims to measure employee wellbeing. The survey was last conducted in 2015 with a new survey planned for 2017.

Society

Sapa is a cornerstone employer in many of the communities where its production sites are located. It is a contributor and sponsor to many local initiatives around the globe. For

example, Sapa Precision Tubing Pune in India sponsored the building of a science lab at a local school, providing 150 children with access to proper tools to learn about science. Another example is how Sapa Extrusion Europe in Italy and Sapa Building Systems South Europe took an initiative to help earthquake victims in Italy after the earthquake in August 2016. Several sites cooperated to donate money to an organization that takes care of earthquake victims. On the corporate level Sapa supports Hand in Hand, enabling women in developing countries to start their own businesses supporting themselves and their families.

Following a thorough review and revision and approval by the board of directors, Sapa's Code of Conduct was re-launched in 2016. The code is implemented throughout the company and is followed up through the compliance system, which also includes a whistleblower channel for employees.

Sapa's corporate social responsibility is an important foundation for procurement and sourcing, and its supplier declaration has been developed to ensure that more than 21,000 firms in its worldwide supply chain are working in line with the values and culture of sustainable development as outlined in its code of conduct. The supplier declaration was further rolled out during 2016 and Sapa continued to do corporate social responsibility audits based on the supplier declaration.

Regulation and taxation

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

Aluminium - regulation

Environmental matters

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

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

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

The European Union has adopted a number of pieces of legislation to address discharges of dangerous substances to water: The Water Framework Directive (2000/60/EC), as well as specific legislation on bathing waters, drinking water, nitrates in ground and surface waters, and urban wastewater treatment. Based upon the information currently available regarding implementation in the EU Member States and Norway, Hydro's management does not believe it will have a material negative impact on its business. The European Union has also adopted Directive 2008/105/EC on environmental quality standards in the field of water policy, which sets specific emission limit values for pollutants identified as priority substances and priority hazardous substances (PHS). These standards must be observed from 2015. Among the substances found on the PHS list are polycyclic aromatic hydrocarbons, which are sometimes emitted by the aluminium industry. Any emissions, discharges and losses of such substances (i.e. PHS) must cease in the EU by 2025. Both the Water Framework Directive and the Directive on environmental quality standards were revised in 2013 (Directive 2013/39/EU), notably to expand the list of priority substances and to revise the emission limit values for the period after 2015. Hydro addressed all the relevant requirements of the Water Framework Directive in cooperation with external consultants and the Norwegian Environment Agency. During 2015, the Norwegian plants implemented new water monitoring programs after review and approval of the Norwegian Environment Agency. This will form basis for future longer term water monitoring.

Hydro has a number of facilities that have been operated for a number of years or have been acquired after operation by other entities. Subsurface contamination of soil and groundwater has been identified at a number of such sites and may require remediation under the laws of the various

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

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

Integrated pollution prevention and control

Under the EU Directive on Integrated Pollution Prevention and Control 1996/61/EC (the "IPPC Directive"), industrial installations require national operating permits based on best available techniques (BAT) for pollution prevention and control. The European Commission had issued a guidance document relevant for the aluminium industry: BAT Reference Document (BREF) for the Non-Ferrous Metals Industries (2001). Norwegian authorities established stricter emission limits for the aluminium industry in Norway applying from January 1, 2007, in line with the IPPC Directive. Hydro's aluminium production facilities comply with those requirements. The IPPC Directive was amended by Directive 2010/75/EU on Industrial Emissions (IED), and the new requirements have been applicable since 2013. The related BREF document has also been updated and new BAT conclusions have been adopted in 2016 (Decision (EU) 2016/1032). We expect Hydro to be in a position to comply with the new rules.

Greenhouse gas emissions

The EU Emissions Trading Directive 2003/87/EC (the ETS Directive) established an internal emission trading system (ETS) in CO2 emission allowances for the period 2005-2012. During this period, the aluminium industry was not included in the scope of the scheme, but was indirectly affected by the scheme, through the pass-through of CO2 allowance costs by power producers into the power prices ("indirect effects"), creating a significant increase in the power prices in the various European markets. This EU Directive is also relevant for the EEA, and Norway joined the EU ETS in 2008.

In April 2009, the European Union adopted a new law amending these rules (Directive 2009/29/EC) to include primary and secondary aluminium production where combustion units have a total rated thermal input exceeding 20 MW in the ETS for the period from 2013-2020 for the direct emissions of CO2 and PFC gases from aluminium plants. Aluminium production is qualified as an industrial sector exposed to a significant risk of "carbon leakage" (i.e. risk of European operations losing market share to less carbon-efficient installations outside the EU).

This means aluminium producers would, in principle, receive a high percentage of the emission allowances they need free of charge. The free allocation of emission allowances is agreed until 2020. Hydro is currently close to the benchmark values, thus the financial impact of these regulations are currently minor. However, due to increased production volumes and an annual reduction of free allowances, the need to procure allowances is likely to increase in the coming years. Such increased purchase of allowances could, depending on the development of the price for CO2 allowances, have a material financial impact.

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

Even more important for the primary aluminium industry are provisions allowing Member States to grant financial compensation for the increase in electricity prices due to ETS implementation ("indirect costs"), while observing EU state aid rules. The European Commission issued guidelines allowing for such state aid under certain conditions, in May 2012. Similar guidelines were adopted by the EFTA Surveillance Authority (ESA) in December 2012. Aluminium production qualifies as an eligible sector. The German and Norwegian governments have adopted legislation granting such compensation as from January 1, 2013 and July 1, 2013 respectively. Both schemes have been considered as compatible with EU state aid rules. Slovakia also set up a scheme for compensation that was approved by the European Commission but the measure has not started to apply yet. Except for Sør-Norge Aluminum AS, which Hydro acquired control of in 2014, Hydro's fully owned Norwegian smelters did not qualify for compensation at the relevant cut-off date, as, according to the Norwegian regulations, Hydro's power sourcing (self-generated power and old sourcing contracts entered into prior to implementation of the ETS scheme) did not expose those smelters to increased electricity price due to the introduction of ETS.

In July 2015, the European Commission issued a new draft directive, proposing to amend the ETS rules for the period

from 2021-2030. The proposal includes a continuation of the free allocation system for industrial sectors exposed to a significant risk of "carbon leakage" for direct emissions and the European Parliament and the Council of the EU are in the process of amending the proposed directive and are expected to reach a final agreement in 2016 or early 2017.

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

EU aluminium tariffs

Trade policy and regulations have a growing impact on Hydro's business both within the political and strategic agenda (like Free Trade Agreements, WTO, EU, etc.) as well as more local dimensions (like duties, anti-dumping measures, etc.).

The EU are negotiating bilateral free-trade agreements with various third countries of interest to Hydro, which might, in time, lead to the elimination of aluminium tariffs with such third countries. In addition, conditional on the success of the final ratification process of the free trade agreement (CETA) it is probable that as of early 2017, duties on aluminium in the EU-Canada trade will be eliminated.

From 2007, the import duty on non-EU imports of primary unalloyed aluminium has been 3 percent, while the duty on alloyed aluminium has been 6 percent. As from January 1, 2014, import duty for alloyed rolling slabs and alloyed extrusion ingot has been reduced from 6 percent to 4 percent, while the import duty on primary foundry alloys has been kept at 6 percent. Aluminium metal produced in the EEA is exempt from any such duty in the EU.

Chemicals legislation - REACH and CLP

The European Union Regulation (EC) No. 1907/2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (known as "REACH") was adopted in late 2006 and entered into force in the EU on June 1, 2007. Hydro's operations are covered by this regulation, and the regulation has also been applicable in Norway since June 2008 through the EEA agreement.

The main aim of REACH is to protect European citizens and the environment from exposure to hazardous chemicals. This will be achieved by requiring producers and importers of chemicals to register them formally and to evaluate their health and safety impacts. In some cases, REACH may require producers and importers to replace hazardous chemicals with those of less concern. The registration of chemicals is a lengthy process over a number of years, and is being prioritized by volumes produced and/or imported.

Hydro is on track to implement REACH, having successfully completed the two first stages in the legal process, i.e. the full registration of substances produced and/or imported above 1,000 metric tons/year and substances in volumes between 100 and 1,000 metric tons/year. Both registrations were completed by the legal deadlines of, respectively, November 30, 2010 and June 1, 2013. The final step in the implementation of REACH is the registration of substances produced and/or imported in volumes between 10 and 100 metric tons/year by June 1, 2018, which Hydro is in a position to do.

The European Union Regulation (EC) No. 1272/2008 concerning the classification, packaging and labeling of chemicals and their mixtures (CLP) transposes in European law the Globally Harmonized System (GHS) for classification and labeling adopted by the United Nations. It covers chemical substances and mixtures, and replaces the previous EU Dangerous Substances Directive and Dangerous Preparations Directive.

CLP is about the hazards of chemical substances and mixtures and how to inform others about them. It is the task of industry to identify the hazards of substances and mixtures before they are placed on the market, and to classify them in accordance with the identified hazards. Importers and manufacturers must provide notification to the European Chemicals Agency (ECHA) about substances subject to registration under the REACH Regulation and hazardous substances, irrespective of volumes, prior to placing them on the market. Hydro complies with these regulations.

Energy - regulation and taxation

The Norwegian regulatory system for hydropower production

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

Our waterfall rights and hydropower plants in Norway were acquired and developed under previous legislation that allowed for private ownership. Approximately one-third of our normal annual production in Norway - about 3 TWh per

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

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

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

Taxation of hydropower production in Norway

Profits from Hydro's hydropower production in Norway are subject to ordinary income tax at 25 percent for the income year 2016, being reduced to 24 for the income year 2017. Revenue for ordinary income tax purposes is based on realized prices. Dams, tunnels and power stations are, for tax purposes, depreciated on a linear basis over 67 years, and machinery and generators over 40 years. However, such fixed assets are depreciated over the concession period if that is shorter. Transmission and other electrical equipment are depreciated at a 5 percent declining balance.

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

In addition, a special resource rent tax, at 33 percent for the income year 2016, being increased to 34.3 percent for the income year 2017, is imposed on hydropower production in Norway. Unlike the ordinary income tax, financial costs are not deductible against the basis for the resource rent tax. Uplift is a special deduction in the net income, computed as a percentage of the average tax basis of fixed assets (including intangible assets and goodwill) for the income year. The percentage, which is determined annually by the Ministry of Finance, essentially provides for a certain return on fixed assets above which income becomes subject to the resource rent tax. The percentage used to calculate the uplift for 2016 was 0.5 percent.

Revenue for resource rent tax is, with certain exceptions, calculated based on the plant's hourly production, multiplied by the area spot price in the corresponding hour. However, revenues from sales under certain long-term contracts are valued at contract price. Power supplied to Hydro's own industrial production facilities has for tax purposes been valued according to a price formula in historical Statkraft contracts, the so-called "St. Prp. 104 price". In 2016 the "St. Prp. 104 price" was repealed and has been replaced by a new reference price for 2017. The new reference price is based on the average contract price in long-term power supply contracts delivered to Hydro. In 2016, no specific reference price applied for power supplied to Hydro's own industrial production facilities, meaning that all of Hydro's power production is valued at spot market price for the income year 2016.

Bauxite and Alumina - regulation and taxation

Environmental regulation

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

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

The practical implication is that for each rural property where Paragominas has current or planned mining

operations, the Environmental Legal Reserve must be complied with and approved by, the Para state environmental agency SEMAS.

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

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

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

Mining regulation

Current framework
Exploration of minerals requires an exploration license from the federal mining agency DNPM. The license grants an exclusive right to explore an area, subject to several requirements including compensation to the land owner and payment of an annual exploration fee to the DNPM. Currently, the annual exploration fee is BRL 3.0 per hectare for the initial term of the license, and BRL 4.63 per hectare for any renewal periods.

If the exploration identifies viable resources, a mining concession is granted by the Ministry of Mining and Energy. The concession includes an obligation to pay royalties to the government and land owners. For bauxite mining, royalties are currently calculated based on net revenue after certain deductions. Government royalties amount to 3 percent and are allocated between local (65 percent), state (23 percent) and federal (12 percent) governments. Royalties due to land owners are 50 percent of the royalty due to the government.

Proposed new framework
In June 2013, a new regulatory framework for mining activities in Brazil was proposed and over 60 public hearings have taken place since then. The new framework proposed to raise the ceiling for royalties up to 4 percent leaving it to the government's discretion to later regulate royalty rates for specific minerals. The framework also proposed to calculate the royalties based on after-tax gross revenues, rather than on net revenues. Under the proposal, existing concessions would continue based on original terms and conditions. However, any transfer of mineral rights would be subject to the conditions of the proposed framework.

The framework also proposed a new mechanism for granting of combined exploration and mining concessions through bidding processes. For a limited number of minerals the current mechanism of "first come, first served" would continue. The new proposal would be similar to the mechanism used to award concessions for the oil and gas industry.

The framework also proposes a reorganization of the mining authorities, indirectly increasing the government's influence on mining regulations, and the possibility of restricting the participation of foreign entities in mining projects.

Following substantial debate, a revised framework was proposed in November 2013, changing the most controversial elements of the original proposal. The revised proposal also aims at reorganizing the mining regulators by creating a new body linked to the President called the National Council on Mineral Policy (CNPM) and by replacing DNPM with a new regulatory agency called the National Mining Agency (ANM).

The revised framework maintains priority rights for the exploration stages of the mining process and introduces new concepts which are intended to boost mining activities. These include new securities for financing exploration and development projects and tax incentives for projects which are intended to improve and add value to tailings and degraded areas. Tender proceedings would not be required for exploration licenses in general or for mining concessions regarding areas already belonging to private parties. In addition, the revised proposal stipulates that the royalty rates for each mineral shall be regulated by law, removing the government discretionary authority in the original proposal.

The new government intends to split the discussions around the new regulatory framework into three different blocks (institutional, tax and operational), in order to expedite the changes on the royalty rates. However, the Government has been careful about the impacts that a tax increase may bring to the investment environment and has been more focused on offering new licenses and unlocking applications which have been backlogged, awaiting the changes in the regulatory framework.

Due to the long time it has taken to get the new framework approved in Congress, it is uncertain whether there would be new adjustments to the framework and when it could become effective.

Taxation in Brazil

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

The general income tax rate in Brazil is up to 34 percent of net income. Some of our operations in Brazil have been granted income tax incentives encouraging investments in the northern states, reducing the effective tax rate on our operating income to a level of around 21 to 29 percent.

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

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

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

Other information

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

Notes and references

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

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02: *Viability performance*

QUICK OVERVIEW

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

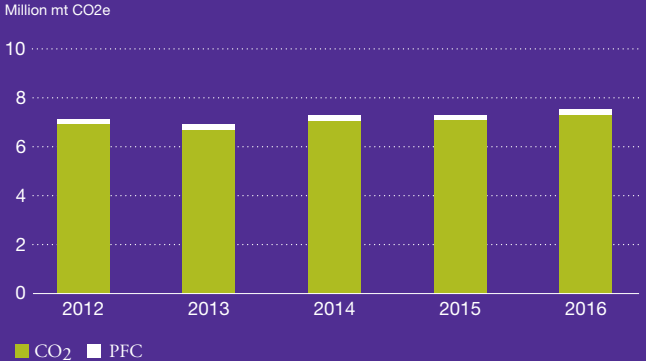
In our terms, pursuing viability comprises a specific way of bridging viability and business, and a set of performance areas where we measure our progress.

Our viability performance reporting consists of page 93-153 in Hydro's Annual Report 2016 and the GRI index at www.hydro.com/gri

We have an integrated approach to our reporting, and our Viability performance should also be seen in context with the other parts of Hydro's Annual Report 2016.

Here we first describe The Hydro Way, a set of guiding principles that govern our activities and underpin our approach to viability. Next, we report on our viability performance in 2016 based on a thorough materiality analysis and according to a set of areas that capture our most important topics while corresponding to generally acknowledged domains of reporting.

Direct greenhouse gas emissions from Hydro's consolidated activities



Figures include historical emissions from current operations.

Viability - The Hydro Way

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

The Hydro Way explains how we run our business through:

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

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

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

In order to ensure a uniform high standard, Hydro's constituting documents and global directives lay down requirements for our operations, see page 180.

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

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

Our reporting approach

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

- Energy and climate change
- Resource management
- Integrity and human rights
- Community impact
- Organization and work environment
- Innovation

In connection with transition to the Global Reporting Initiative's (GRI) G4 protocol in 2013, we reviewed our reporting strategy. The main elements are unchanged, but through a thorough review of our materiality analysis we have identified which GRI aspects that are most material to report on as well as other material indicators. The analysis as shown on the next page is based on the continuous stakeholder dialogue performed by Hydro with its key stakeholders, and collected and evaluated by relevant specialists and leaders. The materiality analysis is updated annually and approved by Hydro's Corporate Management Board. The most material aspects related to our viability performance are all included in the board of directors' report, which gives a high-level overview of Hydro's strategic direction, strengths and challenges. This information is further elaborated in other parts of this annual report and in the GRI index at www.hydro.com/gri

Hydro's conversion to the GRI Standards from the Annual Report 2016 has no significant changes to our materiality analysis process.

The information has been reviewed by Hydro's Corporate Management Board, which has also approved this annual report. The board of directors has approved the complete board of directors' report including the country by country report and the UK Modern Slavery Act transparency statement. Read more about our reporting principles and materiality process on page 118.

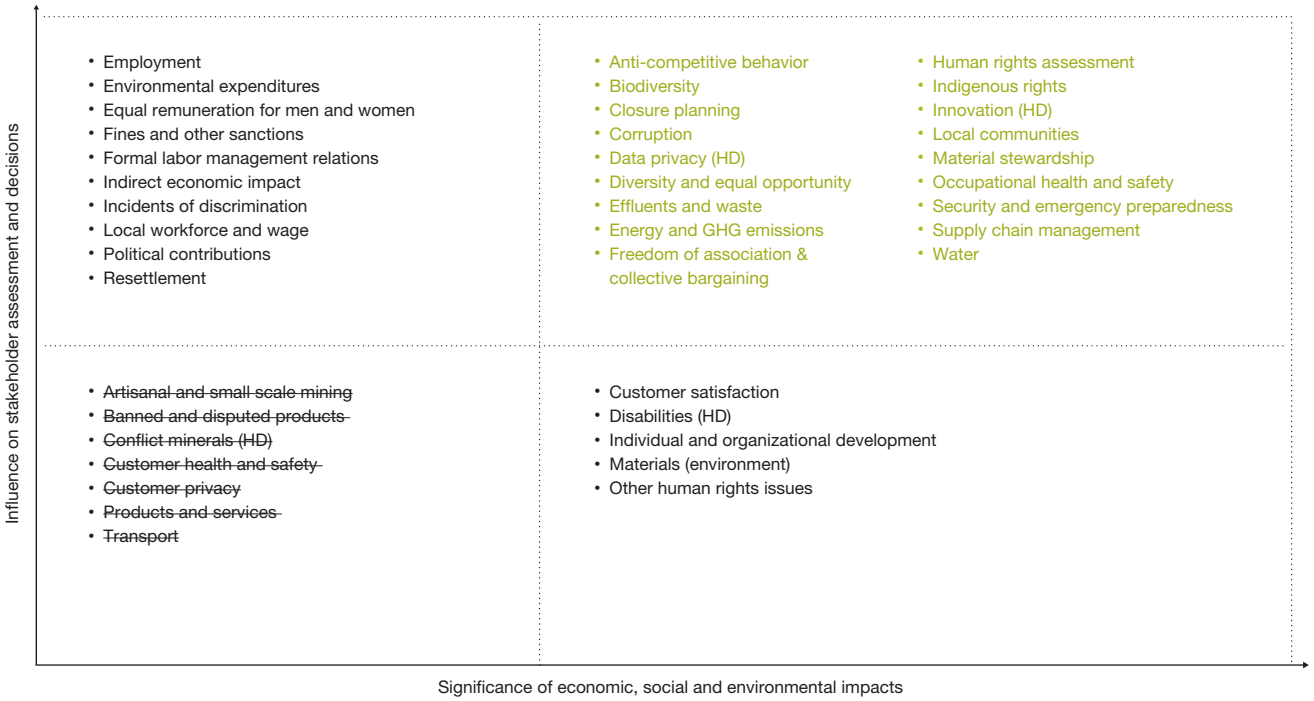
The Viability performance section should be read in context with the other parts of the annual report, in particular:

- Letter to shareholders on page 6
- Board of directors' report on page 11
- Business description on page 53, including strategic targets and business area specific issues related to technology and innovation, environment and society
- Corporate governance on page 179

The underlying details in the reporting are based on different reporting frameworks that are important to us, including the UN Global Compact, the Global Reporting Initiative (GRI), the International Council on Mining and Metals' (ICMM) 10 principles and Position Statements and the Aluminium Stewardship Initiative's (ASI) 11 principles and underlying criteria. The GRI index at www.hydro.com/gri also shows Hydro's adherence to the UN Global Compact, ICMM and

Hydro's materiality analysis 2016

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



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

The main changes from 2015 are:
- The Hydro defined (HD) topics Innovation and Data privacy are added as most material topics.
- Closure planning has been evaluated to be a most material topic and thus moved from the upper left quadrant to the upper right quadrant.
- The Mining & Metals topic Security and emergency preparedness is redefined as a topic valid to all Hydro's activities. The Hydro defined indicator Cyber security is added.
- In Hydro, compliance is a part of each material topic as relevant. The GRI Standards 307 (Environmental compliance) and 419 (Socioeconomic compliance) are mainly related to fines and other sanctions. These are less material to Hydro. We have therefore combined and renamed them "Fines and other sanctions" and moved them to the upper left quadrant.
- Following the transformation to the GRI Standards, Grievance mechanisms are included in the general disclosure of each material topic where relevant.

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

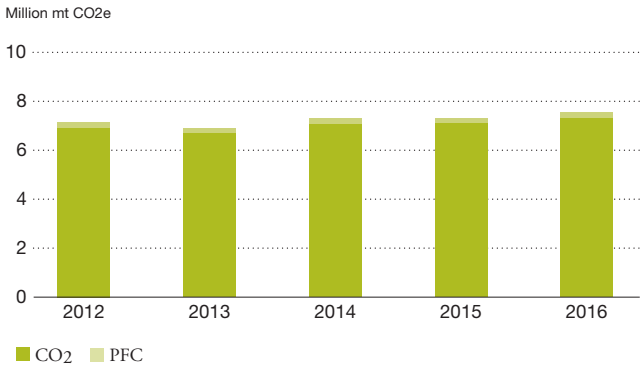
how we relate to ASI, UN Sustainability Goals and UN Guiding Principles on Business and Human Rights - and shows how the different frameworks connect with each other.

Energy and climate change

Alumina refining and electrolysis of primary aluminium are energy intensive. On the other hand, aluminium can save significant amounts of energy and greenhouse gas (GHG) emissions in the use phase. Lighter cars result in fuel savings and lower emissions on the road. Aluminium façades can lead to lower operating costs and enable buildings to produce as much energy as they consume during operation. Products and packaging in aluminium reduce transport costs and emissions. Aluminium packaging also provides excellent barrier properties which help to conserve food more effectively, reducing the need for cooling and reducing food spoilage. And aluminium can be indefinitely recycled without degradation in quality, and requires 95 percent less energy than primary aluminium production.

Hydro's ambition is to be carbon-neutral in a life-cycle perspective by 2020. Carbon neutrality can be defined in many ways, and our definition is the balance between the direct and indirect emissions from our own operations, and the savings of applying our metal in the use phase. By taking the life-cycle perspective of our production, we are aiming at our activities to contribute to reducing total greenhouse gas emissions globally. We seek to reduce total emissions by increasing energy efficiency, recycling more post-consumer aluminium scrap and directing more of our metal production towards markets where benefits in the use phase can be demonstrated.

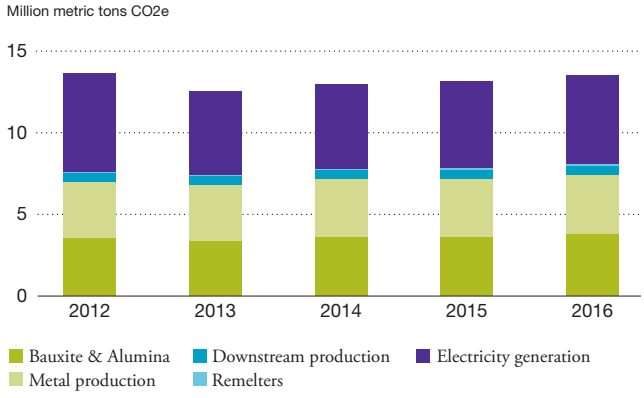
Direct greenhouse gas emissions from Hydro's consolidated activities



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

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

Greenhouse gas emissions from Hydro's ownership equity



Greenhouse gas emissions based on Hydro's ownership equity, direct emissions from production in Bauxite & Alumina, Primary Metal, downstrem operations and the remelters, are comparable to Scope 1 emissions as defined by WBCSD/WRI GHG Protocol. Emissions from electricity generation are based on electricity consumption and IEA "CO2 emissions from Fuel Consumption 2014 factors" for emissions in 2014, 2015 and 2016. This is comparable to Scope 2 emissions from purchased electricity. In addition, the reported emissions from electricity include emissions from Hydro's ownership equity in the Qatalum gas-fired power plant. All figures include historical emissions from current operations.

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

Hydro is on track towards carbon neutrality in 2020, but it will 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.

In 2017 Hydro will review its climate risks analysis including physical risks.

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

Using viable energy sources

As one of the most electricity-intensive industries, the overall carbon footprint of primary aluminium is highly dependent on the source of energy used to produce the metal. Electricity is a main factor for localization of investments and for the carbon footprint of the metal produced, and about 70 percent of Hydro's production of primary aluminium is based on renewable power. We are the second-largest hydropower operator in Norway with a normal production of 10 TWh per year. In 2016, we produced 11.3 TWh.

We are currently upgrading several of our hydropower plants in Norway to secure future production. Please learn more under Energy in the Business description in this report. We signed a long-term power contract in 2016 with the Norwegian wind power consortium Nordic Wind Power DA, for annual base-load supply of between 0.6 and 1 TWh in the period from 2020 to 2039.

Through the technology pilot under construction at Karmøy, we are increasing our Norwegian production which is based on hydropower.

Energy for the Qatalum aluminium plant (Hydro share 50 percent), is based on natural gas. The International Energy Agency recognizes natural gas as an important energy source

Mid-term strategic goals: Energy and climate change

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Extend technology lead with Karmøy technology pilot	Start production	Q4 2017	100 % complete	70 % complete	●
Bigger	Increase nominal automotive Body-in-White capacity	200,000 mt/yr	2017	200,000 mt/yr	Trial production started	●
	Complete ramp-up of UBC	>40,000 mt/yr	2017	Ramp-up completed	Started, delayed ramp-up	●
	Increase hydropower production capacity through upgrades/sustaining investments	~ 0.1 TWh	2020	Continuous progress	~ 50%	●
	Increase recycling of post-consumer scrap [1]	>250,000 mt/yr	2020	155,000 mt/yr	138,000 mt/yr	●
Greener	Become carbon-neutral from a life-cycle perspective	Zero	2020	Review climate risk analysis including physical risks	On track	●
	Deliver on reforestation ambition	Eliminate the rehabilitation gap	2020	1:1	180 ha rehabilitated [2]	●
	Continuously reduced specific GHG emissions from electrolysis	Approach EU benchmark	Long-term	1.57 mt CO2e/mt aluminium	1.61 [3] mt CO2e/mt aluminium	●

1) Includes Hydro's share of recycling in Alunorf
2) We are on track for the 2020 target. In 2016, we rehabilitated in total 180 hectares (ha), while 181 ha were made available for rehabilitation. The target for 2016 was 325 ha. We will review our rehabilitation targets and definitions in 2017.
3) The figure might be subject to minor change following final verification by authorized third party according to EU ETS regulation

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

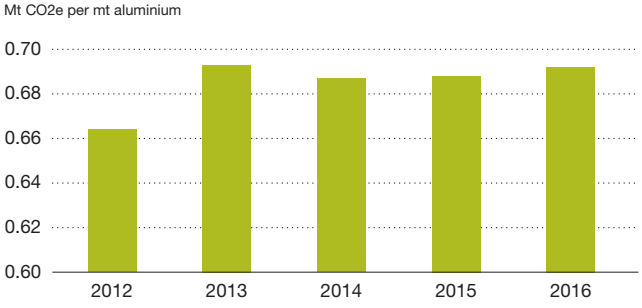
that in a transition period can help reduce global temperature increases. Qatalum represents about 15 percent of our primary metal production capacity.

Reducing energy consumption and emissions in production

Energy efficiency is an important part of Hydro's ongoing efforts to reduce costs and CO_2 emissions. Our Alunorte refinery in Brazil is among the most energy-efficient refineries in the world. In January 2017, Hydro signed a Letter of Intent with the state of Pará and a Memorandum of Understanding with Shell Brasil Petróleo LTDA, with the aim to replace a major part of Alunorte's current fuel oil consumption with more carbon-efficient natural gas.

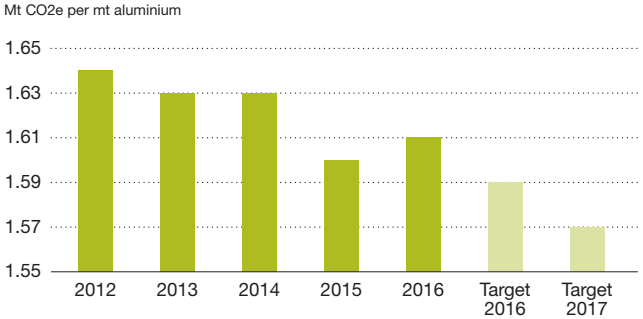
On average, our consolidated smelters consumed 13.9 kWh of electricity per kilogram (kg) primary aluminium produced compared to a global average of 14.0. Our new HAL4e technology has achieved an energy consumption level of 12.4 kWh per kg aluminium produced under full scale testing and we are targeting levels under 12 kWh per kg at new test cells at our Årdal smelter. Hydro's tested electrolysis technology represents potential reductions of 10-14 percent. The Karmøy technology pilot will test this technology in industrial scale, see page 115.

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.

Reducing CO_2 emissions through the use of our products

Aluminium has significant carbon footprint benefits in its use phase, especially due to its lightweight properties. However, as Hydro has no production of end consumer goods, the calculation of use phase benefits can only to a limited degree be based on product specific data. We therefore use acknowledged, independent LCA (Life Cycle Assessment) studies to calculate the use phase benefits in combination with product shipment data.

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

Increasing recycling of aluminium

The inherent properties of aluminium make recycling attractive. It 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.

Hydro is a large remelter and recycler of aluminium. We remelt process scrap from our own production and from other companies as well as post-consumer scrap from the market. Further, we are targeting specific projects to increase our capacity to process post-consumer scrap. 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, these are planned to add post-consumer scrap recycling capacity of 80,000 mt. The process line in Clervaux is the first of its kind providing high thermal and recycling efficiency, making it possible to deliver products made from up to 100 percent post-consumer scrap. For the first time window-to-window recycling is now possible. The plant has received funding for its energy efficiency, from the state of Luxembourg and the local energy supplier. The post-consumer scrap comes partly from Hydro's St Peter plant (formerly WMR) which has gained the status as a certified end-of-waste plant.

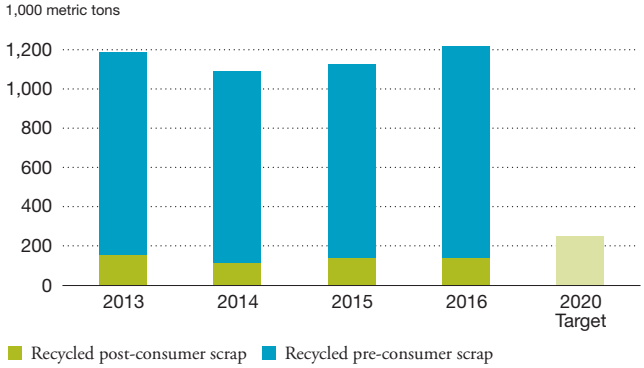
We have developed processes to combine clean scrap with post-consumer scrap, and we plan to invest in existing remelters with a potential of up to 20 percent post-consumer scrap capacity increase. Hydro's patented technology in scrap shredding and sorting is under further development, making it possible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

Hydro entered into a cooperation agreement with Austin AI from Austin, Texas, U.S. to develop scrap-sorting technology for alloys based on Laser-Induced-Breakdown-Spectroscopy (LIBS). A pilot line will be installed in the R&D center in Bonn during 2017 to develop the technology for sorting of scrap from building and transport applications up to industrial scale.

Together with our R&D Center in Sunndal, Norway we have developed a new recycling-friendly alloy (RFA) for extruded building applications that is giving the same properties as our current alloy, but at much higher levels of alloying elements like zinc and copper. Hydro has filed a patent for this so-called Green-Window-Alloy (GWA). Final tests will be performed prior to market launch. With this alloy we will be able to supply extrusion ingots with up to 90 percent lower carbon footprint compared to the standard 6060-type alloy. Hydro cooperates with certain customers to identify zero-energy or energy-positive buildings to test the case from demolition to new windows.

About 95 percent of the aluminium from automotive applications and commercial buildings in Europe is being recycled at end of life, while there is still some way to go on packaging. Hydro and our partners in the market are supporting aluminium packaging recycling initiatives throughout Europe. We team up with producers of beverage cans, drinks and food, and other interest groups and industries, to develop specific activities aimed at raising public awareness about the importance of recycling. Through an agreement with Infinitum, Hydro recycles all used aluminium beverage cans collected in Norway at our Holmestrand recycling plant.

Recycling



Resource management

Hydro's bauxite mining and alumina refining activities in Pará in Brazil include open pit mining and the handling of significant amounts of tailings and bauxite residue, the latter also known as red mud. Biodiversity is important related to Hydro's activities in Pará and to the water reservoirs for our hydropower production in Norway (see page 84). Hydro has primary aluminium production in Australia, Brazil, Canada, Germany, Norway, Qatar and Slovakia.

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

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

Ecosystems and biodiversity

The ongoing loss of biodiversity and degradation of ecosystems represent long-term risks for the industry and society at large. We see a need for more sustainable frameworks and participate in several initiatives, including the World Business Council for Sustainable Development (WBCSD) Ecosystem Program. Hydro is a member of the International Council of Mining and Metals (ICMM), which gives us the possibility to participate in the development of industry practices on the environment as well as an arena for sharing best practices.

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

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.

Operations in Brazil

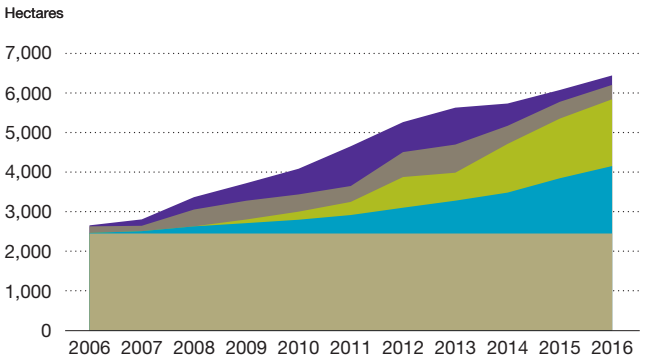
Mid-term strategic goals: Resource management

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Best Available Technology or similar implemented for treatment, storage and use of bauxite residue	New press filter in full operation	2017	Ramp-up of press filter completed	Press filter start-up in August	
	Reduced waste to land-fill	60 % reduction compared to a 2010 baseline [1]	2020	Key waste streams with identified and approved management program in place	Waste to landfill down 12 % compared to 2015	
Bigger						
Greener	Deliver on rehabilitation ambition	Eliminate the reforestation gap	2020	1:1	180 ha rehabilitated [2]	
	Actively manage direct and indirect water risks to improve water quantity and quality	15 percent improved efficiency compared with a 2010 baseline	2020	Develop key water saving solutions for sites in water stressed areas	Water withdrawal in water stressed areas down 4 %	

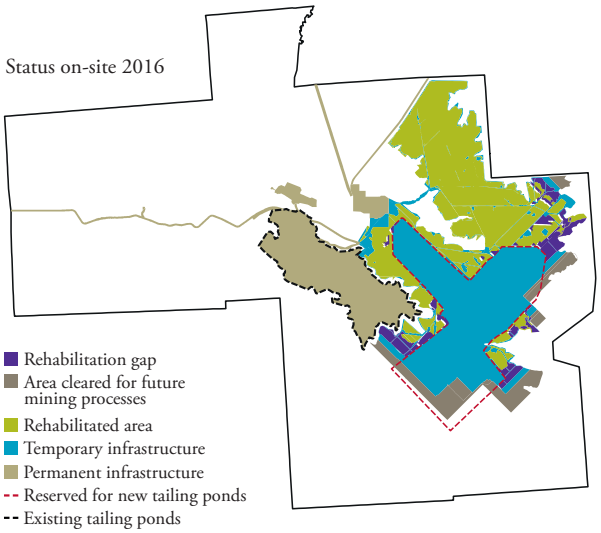
1) Excluding tailings and bauxite residue
2) We are on track for the 2020 target. In 2016, we rehabilitated in total 180 hectares (ha), while 181 ha were made available for rehabilitation. The target for 2016 was 325 ha. We will review our rehabilitation targets and definitions in 2017.

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

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.



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 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.

To increase our knowledge and secure a science-based approach, the Biodiversity Research Consortium Brazil-Norway (BRC) was established in 2013. BRC consists of the University of Oslo, Norway, and its Brazilian partners Museu Paraense Emílio Goeldi, Federal University of Pará and Federal Rural University of the Amazon in addition to Hydro. The scope of the consortium is to create a research program connected to our mining operations. The aim is to strengthen Hydro's ability to preserve natural biodiversity and to better rehabilitate the areas where we mine bauxite. BRC was further strengthened in January 2016 through a new research collaboration agreement between the Research Council of Norway and the state of Pará. Ten projects have been initiated since 2015.

Since 2013, Hydro in Paragominas has used the nucleation method. Topsoil is unevenly distributed to simulate natural landscape and trap rainwater. Piles of cut wood are distributed, creating shelters for animals and improving growing conditions for some plant species. The ambition is to establish a forest system of the same structure that is typical in the pristine forest in the area and to secure as much biodiversity as possible. The method has been approved for testing in MRN by the federal environmental authorities IBAMA as well as by SEMAS, the environmental authority of Pará, and is showing encouraging results.

All of our hydropower reservoirs are located within or in close proximity to national parks and other protected areas in mountainous regions in Southern Norway including Hardangervidda and Jotunheimen. See page 83 for more information.

Water

An annual review of our water withdrawal in 2016 revealed that on a conservative basis 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 the definition used by WBCSD). These areas include Germany and other parts of Europe, where water supply is well-regulated. Qatalum in Qatar relies on public water supply produced by desalination. Sea water is used for wet cooling towers at the power plant as well as for wet scrubbers at the potline fume treatment plants.

Our alumina refinery Alunorte in Brazil obtains an important part of its water supply through the bauxite slurry that is transported from Paragominas by pipeline. Paragominas' and Alunorte's water use is close to their current regulatory limits. From 2015, the authorities have placed a water tax upon the state of Pará. A multidisciplinary team is working to improve the existing water balance studies for the Alunorte and Paragominas sites.

There is an ongoing process with the Norwegian Environment Agency on the mitigation of historical contamination in the Gunnekleiv Fjord. The fjord has been mapped and a proposed mitigation plan submitted.

For more information about the impact of our water reservoirs related to hydropower production, please see page 83.

Waste and efficient resource use

Our goal is to minimize the amount of waste produced when technically and economically feasible and then reuse or recycle it. When this is not possible, we shall deposit it in a secure way to minimize adverse effects to people and the environment.

Tailings and bauxite residue

Tailings from bauxite extraction consist of mineral rejects from the extraction process mixed with water and flocculants. The tailings at Paragominas are stored in dedicated tailings dams, where the particles settle. Run-off water is collected in a separate water pond and reused in the process. The water pond secures overflow to the river during heavy precipitation. The run-off water is monitored, and the water quality meets the requirements set by the authorities.

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 dams will be situated on a plateau where the mining has been finalized. 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.

Bauxite residue, also known as red mud, 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.

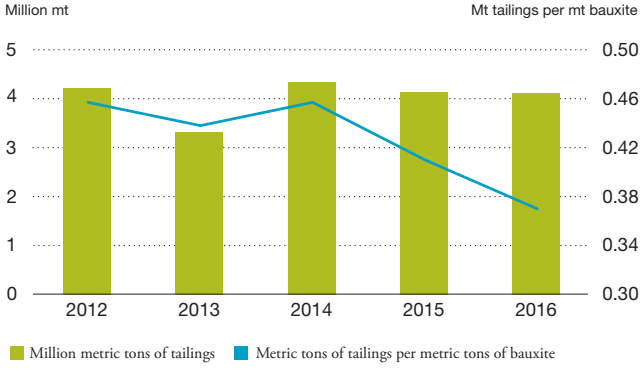
Other waste

Hydro's ambition is to reduce land-filling of total waste - excluding tailings and bauxite residue - by 60 percent within 2020 from a 2010 baseline, see note E5.3 to the environmental statements for further information.

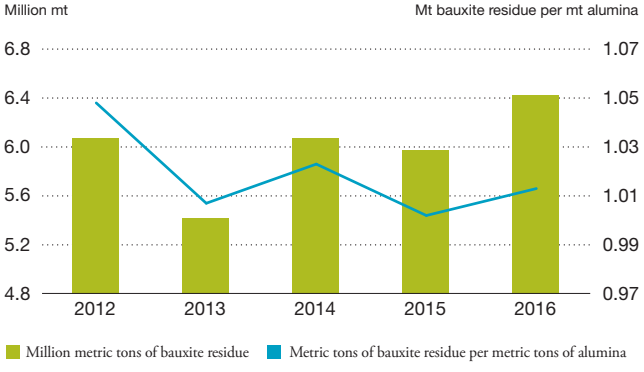
Spent potlining (SPL) from the electrolysis cells used in primary aluminium production is defined as hazardous waste. The production of SPL varies with the relining of smelter cells which is normally done every 4-7 years for established smelters. New plants will get relining peaks at the same interval after start-up. For information about SPL production, see note E5.2 to the environmental statements.

SPL and carbon waste from anode production is a substantial part of the hazardous waste generated in Hydro. Since 2012, parts of the anode waste is used by Norcem cement plant in Brevik, Norway (part of Heidelberg Cement). The carbon material from Hydro is being used as a fuel in the production process where high temperature incineration ensures destruction of hazardous components. Hydro also has an agreement with a refractory supplier to recycle part of the bricks coming from relining the anode baking furnace. These agreements are examples of efficient resource use that is

Tailings from bauxite production



Bauxite residue from alumina production



sound for the environment by substituting fuel or raw materials while reducing landfill and saving landfill costs.

Qatalum delivers all first cut SPL, which is the most energy rich and contaminated part of the SPL, to its neighbor Qatar Steel which uses it in production. In addition, Qatalum has developed in cooperation with local cement plants a solution for co-processing of second cut SPL.

Albras has a significant stock of SPL which is being reduced according to the plan and annual target, delivering to the cement industry in Brazil. Proper handling of SPL and other waste is a part of the planned rehabilitation work in Hydro's former aluminium plant Kurri Kurri, Australia, where the production ceased in 2012.

Dross is a mixture of metallic aluminium, alloy components and metal oxides that is formed on the surface of liquid aluminium. Hydro's casthouses have treatment facilities to recover as much aluminium as possible from hot dross. The residual dross is sent to recovery of more aluminium and further reduction of dross waste.

Hydro applied in 2015 to the Norwegian Environment Agency to remove in total 9,350 metric tons (mt) of hazardous waste including 8 mt of mercury from the Herøya site in Norway to a safe deposit at NOAH Langøya. The waste was successfully removed in 2016.

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.

Product stewardship

Hydro engages in dialogue with customers and other stakeholders regarding the environmental impact of our processes and products. We perform life-cycle assessments (LCAs) for all major product groups to identify improvement potential. We also assess other aspects such as energy and material consumption, toxicity and recyclability.

From 2009 to 2016, Hydro worked with the Norwegian University of Science and Technology (NTNU) to develop and enhance material flow analysis models (MFA) for global and regional aluminium flows. Going forward, this work will be continued with internal resources and together with the International Aluminium Institute.

Over the past two decades, Hydro and other aluminium companies have developed a pan-European network of national initiatives to promote and recycle aluminium packaging. Many of these national activities are emphasizing education and have developed projects with primary and secondary schools and universities to stimulate the next generation to make their contribution to a better environment.

Human rights, working conditions, integrity and community impact throughout our value chain are also a part of our product stewardship approach, see page 105.

Integrity and human rights

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 to external laws and regulations as well as internal directives relating to 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, see page 105. Some of the measures we pursue to ensure integrity and responsible behavior include:

- Zero tolerance on corruption
- Ongoing human rights due diligence, including of joint ventures and suppliers
- Continuous stakeholder engagement linked to existing operations and new projects

Hydro supports the Extractive Industries Transparency Initiative (EITI) and has reported payments to host governments related to exploration and extraction activities for bauxite since 2005. We also comply with the Norwegian legal requirements on country by country reporting, see page 39. The report has been approved by Hydro's board of directors. In accordance with the UK Modern Slavery Act, we publish a transparency statement which is also approved by the board of directors, see page 48. We also follow the Oslo Børs guidance on the reporting of corporate responsibility.

Compliance including anti-corruption and human rights are integrated with our business planning, enterprise risk management 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. A mapping with regard to financial controls linked to the "Integrity Risk Management of Hydro's Business

Partners" procedure was executed throughout Hydro in 2016. In addition, a thorough anti-corruption risk assessment was conducted for all Brazilian operations in Bauxite & Alumina, as well as in parts of the other business areas.

Ensuring a robust compliance environment

Hydro's boardsanctioned code of conduct is regularly updated. It 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 have to confirm that they have received, read and understood Hydro's Code of Conduct.

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. The Head of Corporate Compliance 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. The compliance function was further strengthened in 2016 with the appointment of a corporate data privacy officer, and a data privacy compliance project was reestablished. Hydro's data protection procedure was developed and will be an important tool to comply with applicable data protection law and safeguard the data privacy of employees and other individuals with whom we engage. In accordance with the applicable EU requirements, Hydro has established binding corporate rules (BCR) as the legal basis for the company-wide transfer of personal data. The BCR application was submitted to the Norwegian Data Protection Authority in October 2016. An internal network of data privacy coordinators, dedicated by each business area will be chaired by the corporate data protection officer. Its main purpose is to ensure effective coordination of the BCR implementation and global alignment of the data privacy compliance work in Hydro.

Employees are encouraged to discuss concerns and complaints with their superior. If the employee deems this not to be appropriate, he or she may address the local human resources or HSE staffs, a safety representative, 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. AlertLine is communicated throughout the organization.

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

Mid-term strategic goals: Integrity and human rights

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Maintain zero tolerance on corruption	No instances of corruption	Long-term	No instances of corruption	No registered instances of corruption	●
				Revise Hydro's Code of Conduct	New e-learning on Code of Conduct, mandatory to all new employees, launched	●
				Finalization and roll out of revised Hydro Integrity Program	Finalization and roll out of revised Hydro Integrity Program delayed to 2017	●
Bigger						
Greener	Positive contribution to local social-economic development	Establish project with positive impact on social development of the Barcarena municipality in Brazil	2020	Project ready for detailed design and installation	Feasibility study performed on making a living on scrap collection	●
	Suppliers committed to complying with Hydro's CSR principles	Establish system for identifying no. of supplier employees impacted by Hydro improvement programs	2018	System for vendor/supplier follow-up developed for all business areas	123 audits performed	●
	No instances of human rights violation		Long-term	Update mapping of human rights risks, establish plan to address impacts and gaps.	No registered instances of human rights violations in own operations	●

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

audit reports to the company's board of directors through the board audit committee. Hydro's internal audit has resources both in Norway and Brazil.

Hydro's Integrity Program is based on the Code of Conduct, and is an important tool to prevent corruption and human rights violations. A revision of the program was planned for in 2016, and is planned completed in 2017 including roll out and training of relevant employees.

Procedures are in place relating to assessing the integrity risk of counter-parties and detecting fraud. Regular transaction-based screening of customers and suppliers is also carried out, see note S10.5 to the social statements.

Hydro is a long-standing corporate member of Transparency International (TI) Norway and participates regularly in seminars with TI and by providing content to TI publications.

For more information about Hydro's performance on compliance, see note S10 to the Viability performance statements in this report. For information about alterations of certain test records in Sapa, please see page 14.

Respecting human rights

As an employer, owner and purchaser, our most important contribution toward respecting human rights is to secure decent working conditions in our organization, in minority-owned companies and with our suppliers. Information pertaining to Hydro's human rights policies and compliance is regularly communicated to the board of directors, the Corporate Management Board, business area management teams, and other relevant parties including union representatives. We do not tolerate discrimination on the basis of gender, race, national or ethnic origin, cultural background, social group, disability, sexual orientation, marital status, age or political opinion. Hydro also supports key frameworks that define human rights principles and are committed to following these including the UN Guiding Principles on Business and Human Rights. See www.hydro.com/gri, GRI Standards general disclosure 102-12 and 102-13 for a full overview.

In 2016, Hydro entered into a two-year partnership with the Danish Institute for Human Rights. The new partnership aims at supporting better integration of human rights throughout Hydro operations and activities. This is a step in aligning all Hydro activities with human rights. 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.

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, see page 107 for more information.

Where necessary, Hydro employs security staff for the protection of personnel, property and business activities. There were no reported incidents in connection with our use of security staff in 2016.

Hydro supports ILO's eight core conventions and reports according to the UK Modern Slavery Act, see the Board of Directors report.

Vulnerable individuals and groups

We are committed to the principles of non-discrimination and to respecting the rights of vulnerable individuals and groups. Since 2011 Hydro has been the owner of the 244-km-long Paragominas bauxite pipeline that crosses areas inhabited by a traditional Quilombola group in Jambuacu Territory in Pará in Brazil.

Unresolved issues remain related to identifying individuals directly impacted by the construction of the pipeline. In particular, these relate to 15 km crossing Quilombola territory. There are compensatory and mitigating measures which could have consequences for Hydro's mining operation in Paragominas going forward. These issues relate back to the time before Hydro became owner, and the former owner of the pipeline is still the legal party. Hydro maintains its relations with Quilombola representatives through dedicated staff. We are also working with local projects and are engaged in education and income-generating projects for the Quilombola communities affected by the pipeline.

In the bauxite mine MRN, also in Pará in Brazil, there are ongoing disputes related to some Quilombola communities and the federal authorities regarding land title claims within a national forest. The claimed area includes part of MRN. The local public prosecutor and certain NGOs claim that ILO 169 on indigenous and tribal peoples' rights has been violated during ongoing consultation processes.

Hydro, through MRN's board of directors, engages in the scope of the planned environmental and social impact assessment (ESIA) for the expansion project to secure adherence to international standards.

In Canada, Hydro's part-owned Alouette smelter is in regular dialogue with representatives of indigenous Innu communities in its vicinity. Alouette is also promoting and hiring Innu employees.

Grievance mechanisms

Grievance mechanisms are important to protect the rights of individuals and groups affected by our operations. At many sites, such mechanisms are available to all local stakeholders. The current mechanism for third-party grievances was implemented in Hydro's Brazilian operations in 2014, replacing existing systems. The system works as a pilot for a systematic approach in all of Hydro. Channels for submitting grievances may vary depending on local needs. In Brazil, the system includes several channels including a phone number, e-mail and dedicated, specially trained field workers. Third-party grievances may be of any kind, including social and environmental issues. We are using various means to make the mechanism better known to our neighbors, including newsletters, a web site and open meetings.

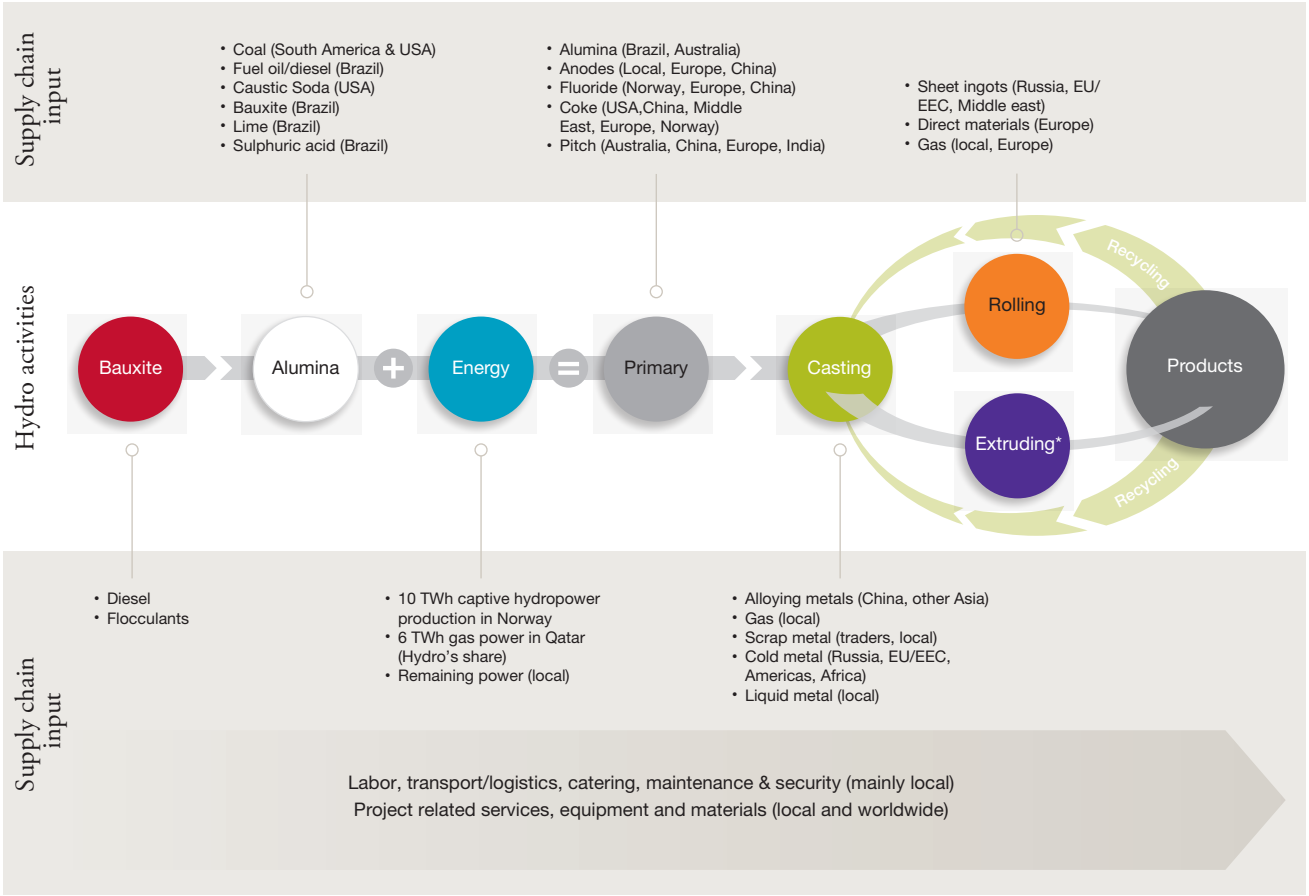
Responsible sourcing

Hydro has about 11,000 active suppliers globally, the majority of which are 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. The requirements cover issues related to environment, human rights, anti-corruption and working conditions including work environment. Hydro's 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

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.

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.

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.

All suppliers, customers and other business partners registered in our main accounting systems are screened on a weekly basis against recognized international sanction lists, in particular related to anti-terror. Furthermore, supplier audits and site visits are performed by Hydro personnel and external auditors based on risk analysis. 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.

Audit findings and corrective action plans are reported and handed over to the visited site. Proposed corrective actions are checked at the latest in connection with the next audit performed at the site in question. We are in particular concerned about corrective actions in relation to possible child, forced or compulsory labor.

Hydro is an active member of REDES, a supplier development network developed by the Industry Federation of Pará, Brazil with support of the state government. Learn more about compliance in the supply chain and local procurement in note S10.5 and S11 to the social statements.

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. This is followed up through supplier audits, etc.

Hydro is a founding member of the Aluminium Stewardship Initiative (ASI) which aims at finalizing a Chain of Custody Standard this year and also establish an assurance system based on third-party certification for sourcing of aluminium. See page 150 for more information.

Community impact

Ensuring responsible conduct in relation to society at large is an important element throughout all phases of our activities. The construction of new plants, acquisitions and divestments as well as closing down capacity are particularly important in this respect. Hydro has a long tradition of responsible restructuring.

Improvement and cost-reduction programs are running in all business areas and corporate staffs, see also page 12. No major changes to Hydro's portfolio and organization took place in 2016. Hydro's aluminium plants in Neuss, Germany (operated by Rolled Products) and Husnes, Norway have been running at reduced capacity since 2009.

New projects

When planning new projects, we map the environmental and social impact when relevant. Our analyses follow the Equator Principles, and thus reflect the requirements of the World Bank and the International Finance Corporation regarding information, consultation and investigation of the project's environmental and social impact, including human rights, as well as an action plan and proposed initiatives. Dialogue with affected groups gives input to plans, detailing our environmental and social responsibilities. We strive to act in an open and credible manner, and gather views from interested parties, aiming for a common understanding of the decisions that are made.

The construction of a new bauxite residue deposit at Alunorte, Brazil is expected to be completed in 2017. The attached pressure filter, which is reducing the moisture content of the residue even further, was started up in 2016 with expected full ramp-up during first half of 2017. At Hydro's bauxite mine in Paragominas, also in Brazil, the construction of new tailing dams is under way. Please see page 101 for more information.

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). See page 12 for more information.

The Karmøy pilot project is on schedule to produce its first metal during the fourth quarter of 2017. See also page 12.

Hydro's advanced AFM (Adjustable Flexible Mould) casting technology has started up in Høyanger and Årdal. AFM

enables casting of more complex alloys with higher accuracy and better quality. New casting equipment installed at Albras, Brazil will have a production capacity 40,000 metric tons per year of foundry alloys.

The building of two smaller power plants in Norway was completed in 2016, see page 83.

In 2016 the third and final step of the debottlenecking of the Alunorf hot-rolling mill was executed. With this, Hydro's hot mill capacity has been increased by some 60,000 mt.

At the rolling mill in Grevenbroich, Germany, a new line for aluminium car body sheet with a nominal capacity of 200,000 mt started up in the fourth quarter 2016. Ramp-up of its full capacity is planned to be completed by the end of 2017. The ramp-up of a new production line for recycling of low-grade used beverage cans in Neuss, Germany has been delayed, and is expected to be completed by the end of 2017. See page 98 for more information. The sheet ingot cast house in Neuss is currently up-graded in line with the development in Rolled Products towards advanced automotive products and to support Hydro's recycling activities.

Dialogue with affected parties

Our dialogue and engagement with relevant parties cover a large number of stakeholders and individuals, such as unions, works councils, customers, suppliers, business partners, local authorities, non-governmental organizations and affected communities including vulnerable groups. Such engagement is based on rights established by legislation or international conventions as well as our values, experiences and participation in the local community. We will consult with interested and affected parties in the identification, assessment and management of all significant social, health, safety, environmental and economic impacts associated with our activities. Before major developments or large expansions are undertaken, it is a requirement to conduct an impact assessment, in line with internationally accepted standards such as IFC and UN Guiding Principles on Business and Human Rights. This includes the principle of free, prior and informed consent when indigenous peoples are involved.

Dialogue with the employees' representatives includes involvement at an early stage in restructuring processes, and we have a tradition for open and successful collaboration between management and unions. The part-owned aluminium plants Albras and Slovalco are part of the global meeting structure between management and union representatives in our Primary Metal business area. In 2015, Hydro decided to include Bauxite & Alumina in the same meeting structure as Primary Metal and Rolled Products, securing direct dialogue between management and union representatives. This decision is about to be implemented. Brazilian union representatives are invited to participate in the annual meeting where Hydro's CEO and the EVP of People & HSE meet with employee representatives to discuss the company's focus areas and business strategy.

Mid-term strategic goals: Community impact

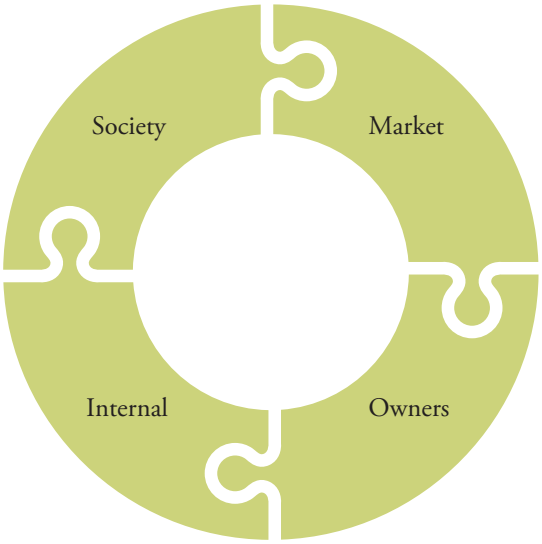
	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Realize ongoing improvement efforts *Better*	BNOK 2.9	2019	0.5 BNOK	1.1 BNOK	●
	Secure new competitive sourcing contracts in Norway post 2020	4-6 TWh	2020	1 TWh	1 TWh	●
	Lift bauxite production at Paragominas	11 mill mt/yr	2018	11 mill mt/yr	11.1 mill mt/yr	●
	Lift alumina production at Alunorte	6.6 mill mt/yr	2018	6.3 mill mt/yr	6.3 mill mt/yr	●
	Extend technology lead with Karmøy technology pilot	Start production	Q4 2017	Start production	~70 % complete	●
Bigger	Realize technology-driven smelter capacity creep	200,000 mt/yr	2025	44,000 mt[1)]	35,000 mt/yr	●
	Increase nominal automotive Body-in-White capacity	200,000 mt/yr	2017	200,000 mt/yr	Trial-production started	●
	Complete ramp-up of UBC recycling line	>40,00 mt/yr	2017	Ramp-up completed	Started, delayed ramp-up	●
Greener	Positive contribution to local social-economic development	Establish project with positive impact on social development of the Barcarena municipality in Brazil	2020	Project ready for detailed design and installation	Feasibility study performed on making a living on scrap collection	●

1) Accumulated

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

Stakeholder dialogue in Hydro

- Media
- Politicians (local, regional, national)
- Authorities
- NGOs
- Lobby groups
- Industry associations
- Public offices



- Customers
- Partners
- Suppliers
- Business relations

- Employees
- Employee representatives
- Unions
- Union leaders
- Board of Directors
- Corporate Assembly

- Owners/shareholders
- The Norwegian State
- Stock exchanges
- Financial markets
- Analysts
- Traders
- Brokers
- Banks
- Ratings agencies

In Barcarena, Pará, more than 60 civil society organizations participate in the Intersectoral Forum together with local authorities and Hydro. The forum is managed by Instituto Internacional de Educação do Brasil, IEB. Hydro is still the only company participating. In 2016 the forum has been deeply involved in the development of the Master Plan for Land use in Barcarena municipality, which was approved late in 2016.

Public affairs and lobbying

Given the nature of our industry, Hydro is particularly involved in policies dealing with climate change, recycling, viable production and consumption, trade, energy efficiency, energy markets, health and safety in the workplace, competition and other framework conditions pertaining to our industry.

Hydro recognizes the value of engaging with public authorities and other stakeholders in relation to the development of various policy initiatives that impact our industry. Hydro interacts primarily with decision makers in countries in which we have significant operations, such as Norway, Germany and Brazil, as well as with regional structures like the European Union institutions. These interactions are mainly related to securing favorable, stable and predictable industry framework conditions, taxes and legislation that might have significant consequences to our activities.

Hydro promotes its views on issues of importance either through direct interaction with public authorities and other stakeholders, or through various industry associations. These include the International Aluminium Institute, Eurometaux, European Aluminium, the Brazilian Aluminium Association, the International Council on Mining and Metals, the Brazilian Mining Association, the World Business Council for Sustainable Development, the Federation of Norwegian Industry, and many more, see www.hydro.com/gri GRI Standards 102-12 and 102-13.

Hydro participates in a series of think tanks, especially in Brussels, and engages regularly in discussions with various NGOs.

Most resources are dedicated to direct dialogue with authorities and decision makers, including lobbying activities, within the EU, Norway and Brazil. Among concrete activities in 2016 was follow-up on an agreement with the state of Pará, Brazil on a long-term ICMS tax framework, see page 92. For more detailed information on spending on public affairs and lobbying, see note S12 to the Viability performance statements in this report.

According to our global directives, Hydro may not make financial contributions to political parties.

Community investments and social programs

A key element in Hydro's CSR strategy is to strengthen the positive impact on the societies and communities where we operate. The way we do this will naturally differ from country to country and from community to community. The main contribution to this will be generated from our operations. Supporting this, we engage in capacity building through targeted programs, most often related to education or income generation. In addition, we have other partnerships aiming to further enhance the public's knowledge about Hydro and its operations.

Some of our community programs are based in mining license requirements, while others are voluntary commitments. In Brazil, all major programs have been evaluated to maximize outcome and impact for the targeted stakeholders. This evaluation has led to restructuring of some programs, while others have been, or will be, phased out.

In 2016, a significant number of students in Pará, Brazil were participating in programs aimed at improving reading and writing skills, improving the learning environment in the schools or broader educational programs. We are also involved in sports-related programs aimed at vulnerable children and youth. In Paragominas, Hydro is also involved in a literacy program reaching almost 500 adults.

Income-generation programs in Pará offer support and training to more than 100 farmers and their families in order to increase their yields or to help them bring their products to the local markets.

In Barcarena, also in Pará, we have performed a feasibility study on a project aimed at engaging with families and individuals working in an unhealthy situation at an uncontrolled landfill, making a living from collecting scrap that can be reused or recycled. The project will support them in organizing and creating a waste sorting facility to do this in a sustainable way. This, combined with an enhanced waste collection system, will offer opportunities to all the currently more than 100 so-called catadores and their families and promote a substantial improvement in their working health and safety conditions.

Local activities at Hydro sites around the world typically include children's education and sports activities, culture and assistance to needy children. Our partnerships also include support of the Nobel Peace Center in Oslo, and Save the Children Norway as well as agreements with e.g. Amnesty International Norway, Transparency International Norway and World Wildlife Foundation Norway.

The program offering internships and apprenticeships to eight refugees at Hydro's Rolled Products in Germany continued in 2016, giving language training to all candidates and training their trainers in cultural differences. The program continues in 2017, targeting giving all candidates relevant apprenticeship positions or further preparatory qualifications.

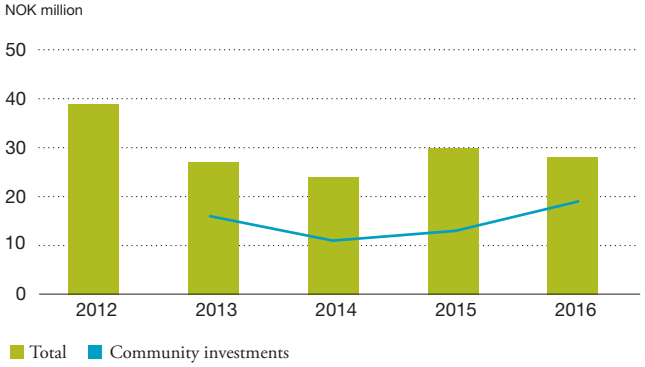
Another important contribution is the transfer of competence that takes place through our cooperation with universities and research institutions. This includes the cooperation with three academic institutions in Pará, Brazil and the University of Oslo through the Biodiversity Research Consortium Brazil-Norway. See page 100 for more information. In addition, we provide scholarships to selected PhD aspirants doing research relevant for our business areas. Hydro is also sponsoring professorships in Norway and Qatar and has several adjunct professors among its own employees. See also page 115 for further information.

Organization and work environment

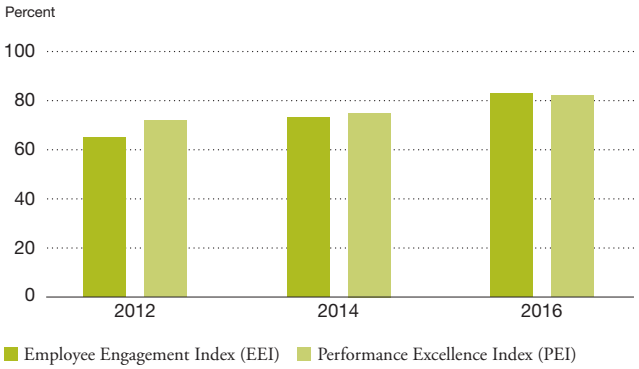
With no fatal accidents and a TRI[1)] rate of 2.6 for both employees and contractor employees, Hydro had its best recorded safety results ever in 2016. Also the number of high-risk incidents and major accidents within Hydro's operations continued to fall, and the company's safety performance remains among the best in the industry.

The global employee engagement survey Hydro Monitor also reached its best results ever in 2016, reaching the top 10 percent according to the IBM External Norm. Maintaining the engagement will be a key priority going forward. All employees were for the first time invited to participate in the people performance and development process My Way, and 98 percent[3)] actually participated.

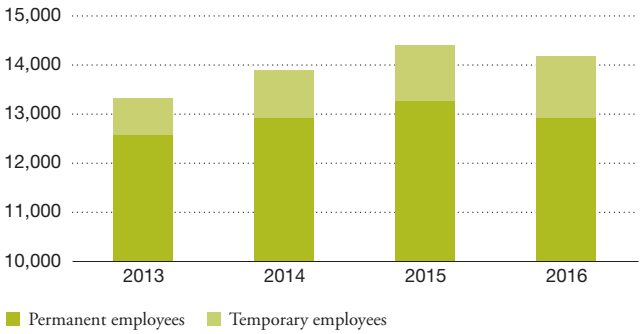
Community investments, charitable donations and sponsorships



Hydro Monitor



Number of employees



In addition, contractor employees represented about 9,500 full-time equivalents during 2016, up from 7,700 in 2015.

Effective organization

In order to deliver on our strategic goals and remain competitive, Hydro needs employees with the right competence. This means that Hydro is dedicated to attracting, developing and retaining competence to ensure our future success. Hydro updated its people strategy in 2016 to ensure that it continues to support the company's strategic goals. The strategy work identified that Hydro has most of the required people processes. There is, however, a need to reinforce some, like strategic workforce planning and develop a few new, like competence practice. The strategy also reinforce 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 the score on the global employee engagement survey Hydro Monitor, 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.

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 the individual and for the company.

Developing and retaining the right competence

Hydro's common process for people performance and development, My Way, includes appraisal dialogue, individual development plan and follow-up, as well as talent planning and succession management. Implementation of the process completed in 2016 when all employees[3] were invited and 98 percent actually participated.

Mid-term strategic goals: Organization and work environment

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Improve safety performance, strive for injury free environment	TRI [1]<2	2020	2.4	No fatal accidents. TRI [1] 2.6	●
	Hydro scores in the top 25 percent on the Employee Engagement Index in Hydro Monitor	Top 25 % [2]	2020	Follow up of Hydro Monitor in all units [5]	Top 10% [4]	●
	All employees participate in the people performance and development process My Way	98 %	2020	98 % [3]	98 % [5]	●
Bigger						
Greener						

1) Total recordable injuries per million hours worked
2) Currently 78 % according to the IBM External Norm
3) 98 % of invited employees, which excludes employees on leave and those being employed after the main part of My Way is performed.
4) Actual result was 83 %
5) Hydro Monitor is carried out for all employees every second year, next in 2018

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

Our philosophy is that 70 percent of competence building is direct on-the-job training, 20 percent of competence is acquired via networking and mentoring and 10 percent via traditional training. Hydro Academy is our platform for learning and development available to all employees. It is also the umbrella for all other faculties and academies in Hydro such as the Aluminium Metal Business System (see page 68), HSE, compliance and leadership. One important goal of Hydro Academy is to make training more visible and easily accessible to leaders and employees. This includes an overview of available training and keeping track of what training they have completed or should complete.

We offer new employees on-boarding training related to the organization and their individual work tasks. This includes required competence within health, security, safety and environment. The most important development takes place locally, primarily with on-the-job training, but also through locally organized training. A special training course, Hydro Fundamentals, is targeting leaders and specialists, giving them insight into Hydro's history, values, diversity, competitive landscape and businesses.

In order to have a healthy pipeline of leaders with the required breadth of experience, we strive for rotating employees early in their careers so that they gain skills from different parts of the organization. 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. We have a portfolio of development programs that supports on-the-job development for leaders and specialists.

Diversity

Hydro's organization around the world represents a great diversity in education, experience, gender, age and cultural background. We see this diversity as a source of competitive advantage for Hydro, not least to encourage innovation. Thus, we emphasize diversity when recruiting and when forming management teams and other working groups.

Hydro is making progress on the implementation of its diversity roadmaps, valid for all business areas 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 secure more targeted roadmaps, further embed diversity in our people processes and develop new initiatives.

We are continually adjusting working conditions so that all employees, regardless of their operability, have the same opportunities in their work place. In Brazil, we are required to employ minimum 5 percent disabled people. Paragominas and Alunorte 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 further to reach the legal requirement.

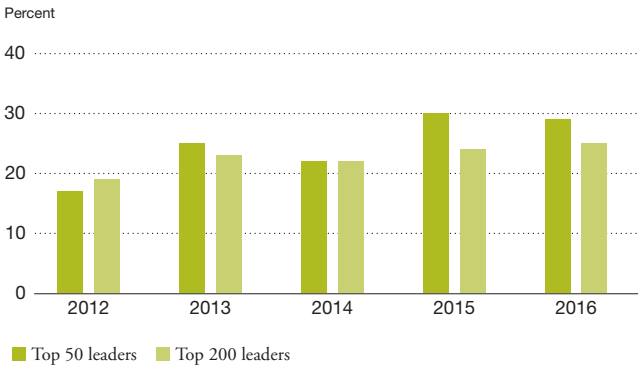
Compensation

All employees shall receive a total salary that is fair, competitive and in accordance with the local industry standard. Only relevant qualifications such as performance, education, experience and other professional criteria shall be taken into account when making appointments, or when providing training, settling remuneration and awarding promotion.

To learn about gender-related salary differences see note S2.1 to the social statements.

The annual bonus of Hydro executives shall reflect achievements in relation to pre-defined financial targets,

Share of women leaders



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

Share of non-Norwegian leaders

achievements of operational and organizational key performance indicators (KPIs). Targets relating to safety, environment, corporate social responsibility and compliance with and the promotion of Hydro's core values (The Hydro Way) and leadership expectations constitute a substantial part of the annual bonus plan. Please see note 8 and 9 to the consolidated financial statements for more information.

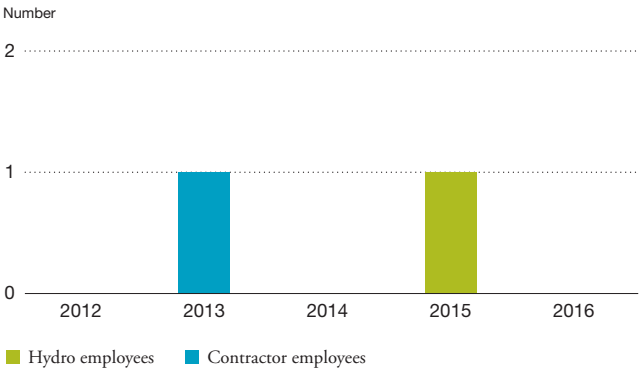
Health and safety

Hydro shall be a leading company in our industry in the area of health, safety and work environment. Our business-planning process is used to ensure continuous improvement throughout the organization. Progress is reported on a monthly basis.

Our ambition is to avoid all serious accidents. Accidents and ill-health cause human suffering and inefficient organizations. We work continuously to avoid damage to health, property and loss of production. This applies to all our activities. Internal independent investigations are routinely initiated after fatal accidents and other serious incidents to identify the causes and reduce risk for recurrences.

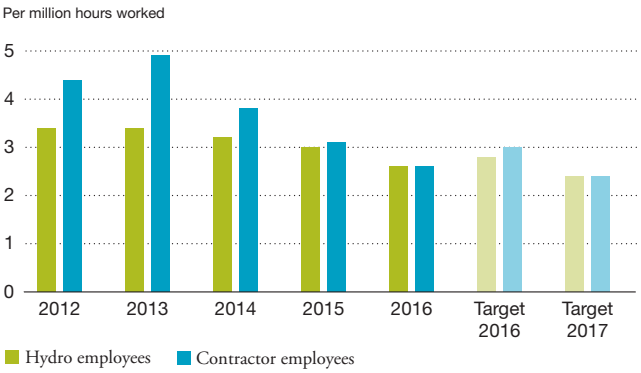
In line with the HSE strategy and the 2020 targets, Hydro will continue to follow its HSE roadmap: Improving leadership qualities, ensuring even better control over tasks and processes with inherent high risks, increasing the quality of the engagement of operators, and implementation of Hydro's health strategy which is currently under update. These will be covered in 2017 with various global and local initiatives. Maintaining a high level of compliance, verified by audits, continues to be an important task. This is supported by a more holistic integration of HSE aspects into existing business systems as well as in new projects and process modifications.

Fatal accidents



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

Total recordable injuries

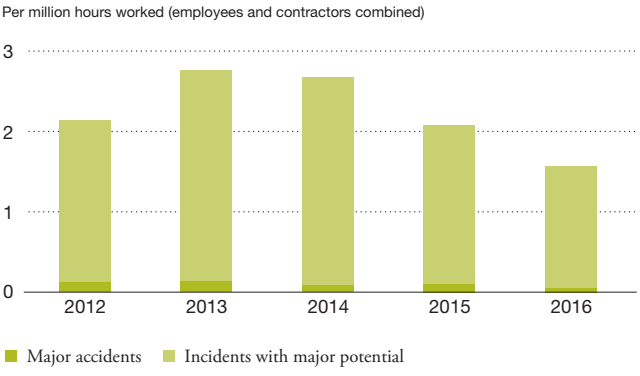


Since 2012, the CEO HSE Committee is the strategic decision-making committee for all main HSE-related matters in Hydro. The committee is led by the President & CEO Svein Richard Brandtzæg and consists of the members of the Corporate Management Board.

The risk KPI remains an important leading indicator helping monitor and manage processes and tasks with high inherent risks. In an effort to further improve Hydro's robustness, a so-called critical controls management system will be introduced in 2017.

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 mitigating measures. To encourage further improvement of the physical and chemical work environment, we have established a

High risk incidents



proactive performance indicator based on the risk assessment. The indicator is being used by all production sites, and the majority of these have established local targets and track the progress.

Hydro Monitor (see page 110) is used to track the organizational work environment, and the results are followed up through local action plans. 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.

Our approach to improving safety performance is based on risk management, leadership qualities and shop floor engagement. An example is one company-wide, harmonized high-risk incident investigation and communication tool. We have defined the priority areas man/machine interface, traffic and contractors as well as leadership behavior. Properly designing the interface between employees and technical equipment is important to avoid dangerous situations and accidents and is an important area in all business areas. For legal entities where Hydro holds less than 100 percent of the voting rights, we are working through their boards of directors to follow up HSE in general and serious incidents in particular.

Security

An increased exposure in areas of risk, and the global volatile risk picture in general, has made us intensify our preventive efforts. We are committed to the protection of people, environment, physical assets, data and information, anticipating and preparing for potentially adverse incidents with crisis potential in order to maintain business and operational continuity.

To prepare for and respond to intentional, unintentional and/or naturally caused disasters, and to protect people and critical assets, security measures are adapted and commenced depending on the evolving risk picture. Security guards are employed on a regular basis to protect our personnel and assets. No armed guards were engaged in our activities in 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 is responsible for infrastructure and functions on local and regional level that might be critical to society's operability, and we operate large-scale production sites where a crisis could influence community interests and safety in general. Hence, we are subject to control and follow-up by respective national authorities. We maintain a high state of preparedness, being trained and monitored through regular exercises. A central emergency team is in place to support line management and ensure crisis handling in accordance with Hydro's requirements and expectations.

A threat and vulnerability assessment forms the basis for preventive measures on almost all sites within our business areas.

Secure information handling is important to ensure Hydro's business continuity and reputation. Crucial computer systems are subject to surveillance and regulations. All personnel with access to sensitive information are bound to secrecy, and required to handle information according to corporate guidelines and requirements.

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

Hydro has launched several initiatives to increase the robustness of its IS/IT infrastructure towards malicious attacks by improving system infrastructure and educating employees to develop and improve secure work processes and routines and developing an understanding of how these threats will be brought to bear.

Hydro's learning tools for risk management, travel safety and security was updated and extended in 2016. Employees are safeguarded through systems for travel planning, risk assessment and emergency preparedness. Our ability to respond quickly to incidents worldwide has increased through risk monitoring, incident-monitoring tools and a continuous development of competence.

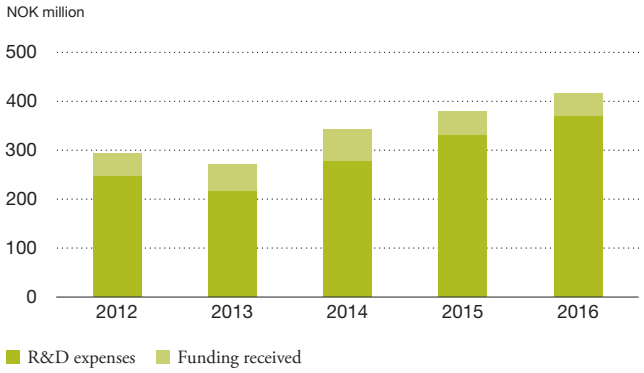
Innovation

We believe that the key to Hydro's 110-year-long stretch of industrial progress is the combination of production and innovation, where research and development have gone hand-in-hand with full-scale production.

Our technology efforts are concentrated on four areas:

- Making products that promote the use of aluminium and sustainable development
- Developing the world's best electrolysis technology - the core of the aluminium company

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.

- Using R&D and technology to ensure optimal operations in existing assets, including cost and HSE
- Develop recycling technology

In our industry, we must start developing today the technology we will be using 10 or 20 years down the road. Smelter technology, alloys with special properties, lighter transportation through the use of aluminium and better packaging to reduce food spoilage and cooling needs are among the areas we are developing together with optimized operations throughout our value chain.

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.

The greater part of our 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). Sapa has its own research centers working on product and alloy development, R&D and offering support in the customers' development processes. Bauxite & Alumina in recent years has developed a research department at Alunorte in Barcarena, Brazil, that is growing further.

A major advantage for Hydro from an innovation perspective is the knowledge and control of the complete value chain from bauxite mining, alumina refining, electrolysis of primary aluminium and alloy technology to finished products.

Our aluminium plants in Sunndal, Norway and Qatalum, Qatar utilize our enhanced HAL 300 technology with an energy consumption of 13.5 kWh/kg 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.

Mid-term strategic goals: Innovation

	Ambitions	Medium-term target	Time-frame	2017 target	2016 progress	Status
Better	Extend technology lead with Karmøy technology pilot	Start production	Q4 2017	100 % complete	70 % complete	●
	Differentiate through product innovation, quality and service	Min. 1 step change/yr	Annually	1 step change	Copper free header for heat exchanger	●
Bigger	Realize technology-driven smelter capacity creep	200,00 mt/yr	2025	44,000 mt[1)]	35,000 mt	●
Greener	Continuously reduced specific GHG emissions from electrolysis	Approach EU benchmark	Long-term	1.57 mt CO2e/mt aluminium	1.61 mt CO2e/mt aluminium	●
	Increase recycling of post-consumer scrap	>250,000 mt/yr	2020	155,000 mt/yr	138,000 mt/yr	●

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

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

A 75,000 metric ton technology pilot, with the aim of full-scale industrial testing of this proprietary technology, under construction at Karmøy, Norway is planned to start production late in 2017. 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. Of the 60 cells, 48 cells will be operated with an energy consumption of 12.3 kWh/kg aluminium and with an emission of 1.4 kg CO_2 equivalents / kg aluminium.

In addition, 12 test cells under development (HAL4e Ultra cells) will be installed based on the identical technology platform as the HAL4e cells but for the purpose of implementing new technology elements with a lower technology readiness level. The HAL4e Ultra cells are expected to be operated with an energy consumption of 11.5-11.8 kWh/kg Al.

Hydro's R&D vision is to reach 10 kWh/kg with higher degree of automation and autonomous control system. An important rationale for the technology pilot is to validate the new physical and control system-related elements in order to enable faster, cheaper and lower risk implementation of these new spin-off technology elements also in existing primary aluminium plants in order to improve their performance and financial robustness.

An important part of Hydro's overall technology strategy is to utilize our researchers, operators and other experts in optimizing operations in existing plants. The competence base in Hydro's technology environments is on a very high level and in core areas world class. We emphasize utilizing this competence in operational improvements. Examples are reduced energy consumption in casting furnaces, new cathode solutions for relining of electrolysis cells, improved blending tools for utilization of recycled materials, reduced emissions from foil annealing furnaces and many improvement projects for quality and productivity.

Upstream R&D and other innovation efforts are mainly emphasizing technology development and operational efficiency, while in downstream the development of new products and applications - to a large extent in cooperation with our customers - is of utmost importance.

In order to promote idea generation and innovation, a “New Idea” system has been established. All employees with an idea can apply for up to NOK 150,000 in funding to develop their idea to a maturity level where it is possible to enter it into a development program or direct implementation. The New Idea concept is managed by the Corporate Technology Office.

For more information about R&D in the individual business areas, please see the section Business description in this report.

Cooperation with other institutions

In Norway, we receive support from several public institutions to further develop our smelter and casthouse technology as well as downstream activities. These include The Research Council of Norway, Enova, Innovation Norway and Prosessindustriens Miljøfond. In addition comes the contribution of NOK 1.6 billion, granted in 2014, from Enova related to the Karmøy Technology Pilot in Norway. The majority of the support from The Research Council of Norway is paid directly to projects administered or partnered by Hydro at NTNU, SINTEF or Institute for Energy Technology. Since 2015 we have been a partner in three centers for research-based innovation (SFI), supported by The Research Council of Norway: SFI Metal Production, SFI Center for Advanced Structural Analysis and SFI Manufacturing. These are cross-disciplinary R&D programs with a frame of eight years. For more information, see note S8 to the Viability performance statements about public funding.

We also participate in other national and EU funded R&D projects on post-consumer scrap-recycling technology, following market demand for products with a low carbon footprint. Our R&D program includes joint projects with external research institutes such as SINTEF, the Norwegian University of Science and Technology (NTNU), Institute for Energy Technology (IFE) and the University of Oslo in Norway, RWTH Aachen in Germany and the University of Auckland in New Zealand.

In 2016 Hydro signed an agreement with NTNU and other partners to establish NAPIC: the NTNU Aluminium Product Innovation Center. The purpose is to develop new aluminium applications. A consortium of several downstream industries has been established and five different faculties at NTNU participates. In order to support and speed up the activity Hydro has sponsored a new NTNU Professor in this area for five years.

Another major cooperation is participation in the AMAP (Advanced Metals and Processes) Research Cluster at RWTH Aachen, where, among others, two recycling-related projects deal with furnace development and melt quality measurement. Furthermore, there are two BMBF (German Federal Ministry of Research and Education) funded projects, one with CUTEC in Clausthal-Zellerfeld on spent potlining inertization for alternative fuel usage, and one with RWTH Aachen on aluminium recovery from incinerator ashes.

Best practice sharing

We strive toward business excellence through continuous improvement, utilizing people, technology and systems to generate maximum value for our customers. Through decentralized accountability and responsibility, decisions are made by those best able to make them. Our business systems define the principles needed to create a performance culture in a unit. One example is the Aluminium Metal Business System (AMBS), which is our operational philosophy, best practice system and standard for world-class production and improvement in our primary metal business. At the heart of AMBS is the principle of empowerment of each employee.

All employees in the organizations are included in the processes, which include establishing standardized practices, training through e-learning, classroom training, on-the-job training and job observation. AMBS training is organized as an ongoing training academy with connected leadership programs. All employees in the relevant units have participated in various academy training sessions. The AMBS academy is one of the faculties in the Hydro Academy (see page 111).

The production system has been implemented at all our metal plants, including the joint-venture plants Qatalum, Slovalco and Albras.

Our Bauxite and Alumina business area has achieved successful improvements in a short time, based on the AMBS philosophy and system in Bauxite & Alumina Business System (BABS). Our Rolled Products and Energy business areas have similar systems adapted to their business needs.

Implementation of Hydro's production systems has been an important enabler for Hydro's improvement and cost-reduction programs in recent years, as they are for Hydro's Better programs targeting NOK 2.9 billion improvement for the period 2016 through 2019.

President's Award

The objective of the President's Award is to energize all employees by recognizing excellent work and best-practice sharing. The winners are an organization or a team that has demonstrated outstanding efforts within the areas of HSE, innovation or Performance. Winners should clearly demonstrate the spirit of The Hydro Way, emphasizing Hydro's values. In 2016, the President's Award for 2015 was awarded in four categories:

- *HSE Award:* Bauxite & Alumina, Alunorte, for high commitment to HSE and excellent integration in business systems, risk-reduction efforts, and very good contractor management, resulting in a significant decrease in chemical burns, low TRI rate for own employees and contractors, low sick leave – and with excellent business results.
- *Products & Processes Innovation Award:* Primary Metal for its new alloys for automotive crash applications. Good teamwork and the utilization of innovative and deep metallurgical competence has resulted in two patent applications for alloys that seem to gain significant impact in the market.
- *Technology Development Innovation Award:* Bauxite & Alumina for improvement in bauxite charge control system at Alunorte, giving significantly improved process stability and production volume by introducing in-line measurement systems for digestion ratio control at Alunorte. The innovation is the combination of modern continuous in-line measurement devices and improved analysis algorithms.
- *Performance Award:* Bauxite & Alumina, Paragominas, for introduction of precision and improvement culture, second year in a row halving the number of accidents year on year, record 2015 production without additional capital expenditures, improved bauxite margins due to more efficient utilization of the mine assets, and significantly improved production process efficiency.

Notes and references

1) Total Recordable Injuries
2) Hydro has a 5 percent ownership interest and off-take agreements with Vale for a further 40 percent of the volume produced by MRN.
3) Excludes employees on leave and those being employed after the main part of My Way is performed.

7.6

MILLION TONS

CO2 equivalents emitted from consolidated operations

Viability performance statements

QUICK OVERVIEW

The Viability performance statement is divided in two sections:

- Environmental statements including key information about Hydro's environmental performance
- Social statements that include key information related to Hydro's workforce and interaction with the societies we are part of

About the reporting

Hydro's main reporting for 2016 on Viability performance is included in the Annual Report. In the web version of the Annual Report found on www.hydro.com/reporting2016 we have included an index referring to the GRI Standards and the requirements of the International Council on Mining and Metals as well as the Aluminium Stewardship Initiative. In addition, a link to our Communication on Progress report based on the United Nations Global Compact is found there together with a review of how we link to the UN Sustainability Development Goals, and how we adhere to the UN Guiding Principles on Business and Human Rights.

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About the reporting

Principles for reporting on viability performance

The purpose of Hydro's reporting is to provide stakeholders with a fair and balanced picture of relevant aspects, engagements, practices and results for 2016 at a corporate level. We believe that the reporting in total satisfies this purpose. Our reporting on viability performance is aligned with the main reporting principles of the GRI Standards (2016) and the requirements of the International Council on Mining and Metals. The selection of elements reported is based on extensive dialogue with stakeholders. In addition, the reporting builds on processes that are part of our daily operations. Important stakeholders include authorities, investors and financial analysts, employees and their representatives, potential employees, customers, non-governmental organizations and local communities affected by major development projects or restructuring processes. Reporting is not necessarily the target of the dialogue process, but when relevant, we use the outcome to improve our reporting, see page 107.

We have endeavored to provide information that is in accordance with the principles of sound reporting practice. The absence of generally accepted reporting standards and practices in certain areas may nevertheless make it difficult to compare results with reports compiled by other companies, without the availability of further data, analyzes and interpretations.

Reporting scope and limitations

The scope of Viability performance as included on page 93-151 in Hydro's Annual Report 2016, is Hydro's global organization for the period January 1 to December 31, 2016. Operations sold or demerged during the year have in general not been included. Health and safety data for all previously consolidated operations are, however, included in the historic data for the period the unit was owned by Hydro. Regarding environmental data (emissions, energy consumption etc.), operations acquired during the reporting year are included for the complete year. Data from operations that have been closed down, are included for the part of the reporting period it was under operation unless otherwise stated. Minority-owned operations is not included in the reported data.

Environmental and financial data relating to acquired operations are included in our statistics, and historical data have been recalculated to reflect current operations. Correspondingly, historical data of divested activities are taken out of our reported data. Employee, safety and work environment data are included from/to the closing date of acquisitions/divestments unless otherwise stated.

Data has been prepared from individual reports in accordance with corporate procedures. Data compiled at each operational unit according to local management systems applicable at the respective operational units are typically based on process data systems, measurements, calculations and/or purchasing data. The data is then aggregated at corporate level, and is not intended to include detailed information that is primarily of significance for individual sites, processes, activities and products.

The reporting is based on input from many units and sources of data. Emphasis has been placed on ensuring that the information is neither incomplete nor misleading. However the scope of the reporting, and varying certainty of data may result in some inherent uncertainties.

Main reporting changes

The main changes to the Viability performance reporting in Hydro's Annual Report 2016 compared to 2015, are:

- A transparency statement according to the UK Modern Slavery Act transparency is included in the Board of Directors' report
- We report according to the GRI Standards instead of the GRI G4 Guidelines

We have added the following new notes to the Viability performance statements:

- Note E8 Joint ventures environmental data: Adding certain information about Hydro's 50/50 joint ventures
- Note S6 Labor rights: Certain quantitative information have been moved from Integrity and human rights, adding information about formal joint management-worker health and safety committees
- Note S12 Public affairs and lobbying: Certain quantitative information have been moved from Community impact
- Note S13 Certifications: Adding an overview of certification of Hydro sites
- Note S14 Joint ventures social data: Adding certain information about Hydro's 50/50 joint ventures

Changes in data basis

There has been a few changes to the data basis of some quantitative indicators. Where relevant, this has been described for each note to the Viability performance statements. In particular, that relates to note E1 and E5 to the environmental statements. We believe that neither of these changes are material to the overall evaluation of Hydro's viability performance.

Changes in reporting presentation

In 2015, we added an overview to Hydro's strategic goals in the section Business description. The same format has been implemented from 2016 for all areas where goals are presented, including the business areas in the Business description and within Viability performance. The purpose is to better illustrate the connection between Hydro's overall strategic mid-term goals and the more operational short-term targets. However, we realize that some readers might miss the 2016 targets as listed in Hydro's Annual Report 2015.

Assurance principles and scope

We have requested our company auditor to review the Viability performance 2016 in accordance with the international audit standard ISAE 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board (IAASB). For the underlying systems, the reader is referred to Hydro's steering documents as described under Corporate Governance, see page 179 in Hydro's Annual Report 2016. The auditor's limited assurance report is found on page 152.

Environmental statements

The table below shows Hydro's main quantitative indicators related to its environmental performance. More detailed information is, when indicated, available in the notes to the environmental statements.

Environmental performance

	Notes	% change 2015-2016	**2016**	2015	2014	2013	2012	GRI Standards reference
GHG emissions								
Direct GHG emissions from consolidated operations (Million tons CO2e) (equal to scope 1)	E1.1	4%	**7.56**	7.29	7.29	6.92	7.15	305-1
Indirect GHG emissions from consolidated operations (Million tons CO2e) (equal to scope 2)	E1.1	3%	**3.05**	2.97	2.92	2.69	2.88	305-2
Direct GHG emissions from Hydro's ownership equity (Million tons CO2e)[1] (equal to scope 1)	E1.4	3%	**8.10**	7.83	7.77	7.43	7.63	305-1
Indirect GHG emissions from Hydro's ownership equity (Million tons CO2e) [1] (equal to scope 2)	E1.4	3%	**5.80**	5.66	5.57	5.45	6.16	305-2
GHG intensity								
Alumina refining (mt CO2e per mt. alumina)	E1.6	-	**0.69**	0.69	0.69	0.69	0.66	305-4
Electrolysis (mt CO2e per mt. aluminium)	E1.7	1%	**1.61**	1.60	1.63	1.63	1.64	305-4
Energy production and consumption								
Energy production (TWh)	E3.1	4%	**11.3**	10.9	10.2	10.2	10.3	
Energy consumption (TWh)	E3.1	3%	**50.3**	48.9	48.2	46.9	47.2	302-1/302-4
Energy intensity								
Alumina refining (GJ per mt alumina)	E3.2	1%	**8.07**	8.01	7.99	8.17	7.84	302-3
Electrolysis process (kWh per kg aluminium)	E3.2	-	**13.89**	13.90	13.88	13.91	13.94	302-3
Other resource use								
Alumina (1000 mt)	E4.1	2%	**3 331**	3 256	3 153	3 111	3 085	301-1
Total water withdrawal from water stressed areas (mill m^3)	E4.2	(4)%	**2.19**	2.28	2.30	2.20	1.80	303-1/303-2
Recycling								
Recycled post- consumer scrap (1000 mt)	E4.3	3%	**138**	134	111	151	N/A	301-2
Total recycled metal (1000 mt)	E4.3	8%	**1 215**	1 123	1 092	1 189	N/A	301-2
Waste (1 000 mt)								
Bauxite tailings	E5.1	-	**4 117**	4 128	4 333	3 313	4 215	MM3
Bauxite residue (red mud)	E5.1	8%	**6 426**	5 973	6 069	5 415	6 071	MM3
Hazardous waste[5]	E5.2		**196**	200				306-4
Other waste[5]	E5.2		**291**	313				306-2
Hazardous waste to landfill (%)	E5.3	-	**46%**	45%	49%	52%	53%	306-2
Biodiversity in mining								
Accumulated area disturbed (hectares) [2]	E6.2		**6 444**	6 076	5 734	5 629	5 264	MM1
Accumulated area rehabilitated (hectares)	E6.2		**1 689**	1 509	1 231	707	776	MM1
Accumulated endangered species observed [3]	E6.3	14%	**65**	57				102-11

Figures in brackets indicate a decrease.

1) Combined numbers: based on ownership equity.
2) Accumulated area disturbed since construction of the mining area started. The mine started its production in 2006.
3) Accumulated number of endangered species observed since registration started in 2003. In 2015, the list of endangered species was revised in accordance with the Synthesis report published by the Brazil-Norway Biodiversity Research Consortium (BRC). Figures are therefore not comparable to previous years and the these figures have been removed.
4) Values are given as percentage points
5) Figures for 2016 and 2015 are not comparable with previous years due to changes in reporting method.

Notes to the environmental statements

General reporting standards and principles

Environment, energy and resource data are reported through the corporate data reporting tool HERE on an annual basis covering all consolidated operational units (defined as Hydro's ownership share exceeding 50 percent). Data reported to HERE should be based on specific environmental, energy and resource data reporting processes that have been established for management purposes at site, sector, business area and corporate level within Hydro. Data are reported on a 100 percent basis for all consolidated operational units if not otherwise stated. All environmental emissions include historical emissions from current operations and are recalculated annually to reflect Hydro's current portfolio.

Data reported in HERE is in accordance with Hydro's corporate procedure "Registration of environment, resource and energy data". The procedure provides definitions and factors for estimating emission values. Data are compiled at each operational unit according to local environmental management systems and typically based on process data, measurements, calculations and/or purchasing data.

Where applicable, we have indicated to which GRI Standards disclosure the different notes or parts of the notes are applicable. Please also see the Environmental statement on the previous page for more such information.

Note E1 - Greenhouse gas emissions

Reporting principles

All greenhouse gases (GHG) are measured as CO_2 equivalents (CO2e) based on conversion factors for their 100-year global warming potentials (GWP) from the Intergovernmental Panel on Climate Change (IPCC). In 2013, IPCC changed the global warming potentials (GWP) for PFC-gases (CF4 and C2F6), resulting in higher GWP for our PFC emissions. We have used the updated factors from our 2015 reporting and have updated historical emissions accordingly.

GHG emissions have been calculated based on the principles of the WRI/WBCSD GHG Protocol. Direct emissions from production in Bauxite & Alumina, metal production and downstream operations as well as from the remelters, are comparable to Scope 1 emissions as defined by WRI/WBCSD GHG Protocol.

Indirect emissions, emissions from electricity generation, are calculated based on electricity consumption and emissions factors from the IEA CO_2 Emissions from Fuel Consumption (2016) and are comparable to scope 2 emissions from purchased electricity. The 2014 factors have also been used for 2015 and 2016, as these are the most recently available factors.

We report indirect emissions according to the location-based method in the revised GHG Protocol Scope 2 Guidance. We do not report indirect emissions according to the market-based approach, as this method does not give the correct picture of physical realities.

E1.1 Total greenhouse gas emissions in consolidated activities

Reporting principles
Greenhouse gas emissions are reported per process step. For information purposes we have indicated in which business area (financial segment) the emissions mainly take place.

Greenhouse gas emissions - consolidated activities

Million tons CO2e	**2016**	2015	2014	2013	2012
Direct GHG emissions	**7.56**	7.30	7.29	6.92	7.15
Bauxite & Alumina	**4.17**	3.95	3.97	3.64	3.86
Primary aluminium production (mainly Primary Metal)	**3.11**	3.06	3.04	3.00	3.01
Downstream production (Rolled Products)	**0.17**	0.16	0.17	0.17	0.17
Remelters (in Metal Markets and Rolled Products)	**0.12**	0.12	0.11	0.11	0.11
Indirect GHG emissions	**3.05**	2.97	2.92	2.69	2.88
From electricity generation (mainly Primary Metal)	**3.05**	2.97	2.92	2.69	2.88
Total GHG emissions	**10.61**	10.27	10.22	9.61	10.04

GRI-reference: GRI Standards 305-1 and GRI Standards 305-2

The production of alumina and primary aluminium increased since 2015, see note E7. The increase in PFC emissions in 2016 is mainly due to production disturbance in Årdal following power outage. Increased CO_2 emission due to increased total production.

E1.2 Total greenhouse gas emissions per country in consolidated activities

Reporting principles
Total greenhouse gas emissions per country in Hydro's consolidated activities (based on 100 percent).

Greenhouse gas emissions per country - consolidated activities

Million tons CO2e	**2016**	2015	2014	2013	2012
Brazil	**6.14**	5.90	5.94	5.46	5.43
Direct	**4.94**	4.75	4.77	4.44	4.67
Indirect	**1.20**	1.15	1.17	1.01	0.76
Germany	**1.79**	1.76	1.68	1.56	0.93
Direct	**0.48**	0.47	0.45	0.43	0.31
Indirect	**1.30**	1.29	1.23	1.12	0.63
Norway	**1.85**	1.78	1.77	1.76	1.69
Direct	**1.72**	1.66	1.66	1.64	1.58
Indirect	**0.13**	0.12	0.12	0.11	0.11
Slovakia	**0.72**	0.72	0.71	0.72	0.80
Direct	**0.31**	0.32	0.32	0.30	0.33
Indirect	**0.40**	0.40	0.39	0.42	0.46
Other	**0.12**	0.12	0.11	0.11	1.19
Direct	**0.10**	0.10	0.10	0.09	0.26
Indirect	**0.02**	0.02	0.01	0.11	0.93
Total GHG emissions	**10.61**	10.27	10.22	9.61	10.04

GRI-reference: GRI Standards 305-1 and GRI Standards 305-2

The production of alumina and primary aluminium is steadily increasing, see note E7.

E1.3 Direct GHG emissions per GHG type in consolidated activities

Reporting principles
CO_2 emissions are calculated based on anode consumption during the electrolysis process and use of other fossil fuels. PFC (perfluorocarbon) emissions consist of the two greenhouse gases CF4 and C2F6 which are formed during anode effect situations in the aluminium electrolytic cells. Emissions are calculated based on online process measurements.

Direct GHG emissions per GHG type - consolidated activities

Million tons CO2e	**2016**	2015	2014	2013	2012
CO_2	**7.32**	7.09	7.04	6.69	6.91
PFC	**0.24**	0.21	0.25	0.23	0.24
Total GHG emissions	**7.56**	7.30	7.29	6.92	7.15

The production of alumina and primary aluminium increased since 2015, see note E7.

Methane (CH_4) and N_2O emissions from Hydro's operations are negligible compared to the other GHG emissions.

E1.4 Total greenhouse gas emissions based on ownership equity

Reporting principles

In addition to the GHG emissions referred to above, we also report GHG emissions based on our ownership equity as per year end. This data includes Hydro's share of emissions from all operations including non-consolidated operations where Hydro has a minority interest. Electricity generation covers indirect GHG emissions from purchased electricity and emissions from Hydro's ownership share in the gas-fired power plant at Qatalum. Emissions from electricity generation are based on electricity consumption and IEA CO_2 emissions from Fuel Consumption 2014 factors (the most recent published) for emissions in 2014, 2015 and 2016. For earlier years, emission factors for the actual year are used.

Greenhouse gas emissions - ownership equity

Million tons CO2e	**2016**	2015	2014	2013	2012
Direct GHG emissions	**8.10**	7.83	7.77	7.43	7.63
Bauxite & Alumina	**3.78**	3.59	3.61	3.31	3.50
Primary aluminium production (mainly Primary Metal)	**3.61**	3.55	3.50	3.45	3.47
Downstream production (Rolled Products and 50% of SAPA)	**0.58**	0.57	0.56	0.56	0.54
Remelters (mostly Metal Markets)	**0.12**	0.12	0.11	0.11	0.11
Indirect GHG emissions	**5.80**	5.66	5.57	5.45	6.16
Electricity generation (mostly Primary Metal)	**5.80**	5.66	5.57	5.45	6.16
Total GHG emissions	**13.90**	13.49	13.34	12.88	13.79

GRI-reference: GRI Standards 305-1 and GRI Standards 305-2

E1.5 Total greenhouse gas emissions per country based on ownership equity

Reporting principles
Total greenhouse gases per country based on Hydro's ownership equity (see note E1.4 for more information on reporting principles).

Greenhouse gas emissions per country - ownership equity

Million tons CO2e	**2016**	2015	2014	2013	2012
Australia	**0.89**	0.89	0.85	0.89	1.99
Direct	**0.14**	0.15	0.14	0.13	0.29
From electricity generation	**0.75**	0.74	0.71	0.76	1.70
Brazil	**4.83**	4.62	4.65	4.27	4.33
Direct	**4.18**	4.00	4.01	3.72	3.91
From electricity generation	**0.66**	0.62	0.64	0.55	0.42
Canada	**0.47**	0.47	0.45	0.46	0.46
Direct	**0.23**	0.23	0.23	0.22	0.21
From electricity generation	**0.24**	0.24	0.22	0.24	0.24
Germany	**2.08**	2.04	1.97	1.84	1.22
Direct	**0.62**	0.60	0.59	0.57	0.44
From electricity generation	**1.46**	1.44	1.38	1.27	0.77
Norway	**1.85**	1.78	1.77	1.76	1.69
Direct	**1.72**	1.66	1.66	1.64	1.58
From electricity generation	**0.13**	0.12	0.12	0.11	0.11
Qatar	**2.45**	2.41	2.35	2.39	2.80
Direct	**0.60**	0.60	0.55	0.55	0.59
From electricity generation [1)]	**1.85**	1.81	1.80	1.84	2.21
Slovakia	**0.40**	0.40	0.39	0.40	0.44
Direct	**0.17**	0.18	0.17	0.17	0.18
From electricity generation	**0.22**	0.22	0.22	0.23	0.26
Other	**0.94**	0.89	0.91	0.87	0.85
Direct	**0.44**	0.42	0.42	0.42	0.41
From electricity generation	**0.50**	0.47	0.48	0.45	0.44
Total GHG emissions	**13.90**	13.49	13.34	12.88	13.79

1) Most electricity at Qatalum is generated by Qatalum´s fully-owned gas power plant . 0.039 million tons CO2e came from purchased electricity from the national grid.

GRI-reference: GRI Standards 305-1 and GRI Standards 305-2

Hydro's production based on ownership equity can be found under Operational review in the section Financial and operating performance in this report.

E1.6 GHG intensity - Alunorte alumina refinery

Reporting principles
The GHG intensity is calculated based on total greenhouse gas emissions from Alunorte divided by total alumina production and includes all alumina refining in Hydro.

E1.7 GHG intensity - Electrolysis

Reporting principles
The GHG intensity is calculated based on total greenhouse gas emissions from the electrolysis process of Hydro's consolidated smelters. Intensity figures do not include extraordinary emissions during start-up of curtailed capacity in Sunndal in 2015, while all emissions are included in total GHG emissions.

Note E2 - Other emission related indicators

E2.1 Other emissions

Reporting principles
Dust and particles include measured and calculated/estimated stack emissions. Diffuse emissions are not included.

Fluorides cover emissions to air of gaseous and particulate fluorides from production of primary aluminium.

NMVOC (non-methane volatile organic compounds) emissions to air stems primarily from Rolled Products.

PAH (poly-aromatic hydrocarbons) to air is primarily from Primary Metal. Emissions are measured according to NS 16 PAH.

PAH to water is from Primary Metal and is measured according to Borneff 6 PAH.

Sulfur dioxide to air is primarily from the use of coal as an energy source in Alunorte, Brazil, and from the aluminium electrolysis process where the majority of the total emissions come from Albras in Brazil, Neuss in Germany and Slovalco in Slovakia. SO_2 emissions from the Norwegian smelters are considerably lower due to different waste gas treatment techniques used at these plants.

Other Emissions

Metric tons	**2016**	2015	2014	2013	2012
Dust and particles	**4 557**	5 099	5 274	3 369	3 171
Fluorides to air	**684**	742	715	665	585
NM VOC	**239**	256	247	197	197
Nitrogen oxide	**9 244**	8 779	9 026	7 982	8 517
PAH to air	**9.6**	10.6	11.8	13.0	10.5
PAH to water (Borneff 6 PAH)	**0.3**	0.4	0.5	0.4	0.3
Sulfur dioxide (SO2)	**33 235**	30 053	33 391	33 307	30 849

GRI-reference: GRI Standards 305-7

Hydro uses ozone depleting substances in certain applications in its Brazilian operations. In 2016, Hydro used in total 6 metric tons of such substances. For 2016 also Albras was included for the first time. The reported value corresponds to the purchased amount of such substances and can vary significantly according to the need of refilling existing cooling devices. All such substances are registered and reported according to Brazilian legal requirements (GRI 305-6).

E2.2 Spillages

Reporting principles
Spillages and permit breaches are registered in Synergi, which is the electronic reporting tool for incidents regarding health, safety, security and environment. According to Hydro's definition, any incident resulting in a spill or leak shall be reported, including significant spillages with short-term reversible damage. Spillages categorized as high severity, i.e. uncontained but reversible impact or uncontained and irreversible impact, are reported in the table below.

Spillages

	2016	2015	2014	2013	2012
Spillages	**0**	0	1	1	0

GRI-reference: GRI Standards 306-3

In 2014, one spillage of about 100 m^3 caustic material from the dewatering pond management system at Alunorte, Brazil, reached ground and surface water nearby the dewatering pond. Hydro has engaged an external firm to investigate possible extent and damage to ground water. Four groundwater monitoring campaigns have been performed and the report was finalized during the second quarter of 2016, concluding that the spillage did not result in any significant impact of the ground water. Furthermore, river monitoring and soil samples could not detect any impacts.

E2.3 Permit breaches

Reporting principles
Permit breaches are based on monthly monitoring of emissions. Hydro's definition of permit breaches, any incident that in any way relates to an environmental permit, is in certain cases more strict than the legal definition. Permit breaches categorized as high severity, i.e. permit breaches requiring regulator contact or permit breaches with possible fine or suspension, are reported in the table below.

Permit breaches

	2016	2015	2014	2013	2012
Permit breaches	**0**	3	3	1	6

E2.4 Provisions for environmental clean-up and future asset retirement obligations

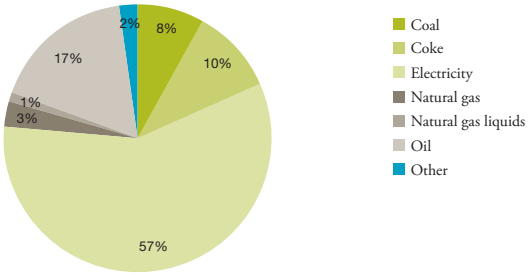
Reporting principles
When Hydro, at acquisition of an asset or start of a business activity, has an obligation to remove, dismantle or remediate the asset or site used, that obligation is included in the cost of the asset with the present value of estimated remediation costs. The same treatment is applied if an obligation to remove, dismantle or remediate the asset is introduced at a later date, through new legislation or other means. For Hydro's accounting policy for provisions and asset retirement obligations, see note 2 Significant accounting policies to Hydro's financial statements. For information about provisions for environmental clean- up and asset retirement obligations (ARO) and environmental liabilities see notes 34 and 35 to the consolidated financial statements.

Note E3 - Energy

E3.1 Energy consumption and energy production

Reporting principles

Energy consumption per energy carrier
Total energy consumption in Hydro was 50 TWh in 2016



Energy consumption includes Hydro produced as well as purchased energy in Hydro's consolidated activities. Hydro has a nominal production of 10 TWh hydroelectric power. For more information about Hydro's energy production, see page 158.

Hydro does not purchase heating, cooling or steam, which is produced internally in Hydro and is reported as "other" energy consumptions. Energy consumption includes energy losses in hydroelectric plants.

Energy consumption per energy carrier - consolidated activities

PJ	**2016**	2015	2014	2013	2012
Coal	**15.2**	13.5	14.6	13.0	14.0
Coke	**18.7**	18.5	18.0	18.6	18.5
Electricity	**103.7**	100.0	96.8	95.6	93.6
Natural gas	**6.3**	6.0	6.0	6.0	6.2
Natural gas liquids	**1.7**	1.3	1.6	1.5	1.7
Oil	**30.9**	30.7	29.5	27.6	28.9
Other	**4.4**	4.3	4.2	4.3	4.5
Total energy consumption in PJ	**181.0**	174.4	170.7	166.6	167.4
Total energy consumption in TWh	**50.3**	48.4	47.4	46.3	46.5

Energy consumption per sector - consolidated activities

PJ	**2016**	2015	2014	2013	2012
Bauxite and Alumina	**48.9**	46.4	46.6	43.2	45.9
Electrolysis/Carbon/Casting	**120.4**	116.4	113.4	112.8	112.3
Remelters	**2.6**	2.5	2.4	2.4	2.3
Rolled Products	**4.3**	4.3	4.2	4.5	4.3
Other	**4.8**	4.8	4.1	3.8	2.6
Total energy consumption	**181.0**	174.4	170.7	166.6	167.4

Energy consumption per country - consolidated activities

PJ	**2016**	2015	2014	2013	2012
Brazil	**80.9**	78.0	78.2	75.5	78.2
Germany	**16.4**	16.1	15.4	15.2	11.0
Norway	**69.4**	66.3	63.2	62.3	59.7
Slovakia	**12.1**	11.9	11.8	11.6	11.3
Other	**2.2**	2.1	2.0	2.0	7.3
Total energy consumption	**181.0**	174.4	170.7	166.6	167.4

GRI-reference: GRI Standards 302-1

The increase is mainly due to increased production. See also note E7.

E3.2 Energy intensity

Reporting principles
Energy intensity in Alunorte is calculated based on total energy consumption in Alunorte divided by total alumina production.

Energy intensity in Hydro's consolidated smelters is direct current consumption in the electrolysis process per kg aluminium.

Note E4 - Other resource use

E4.1 Materials

Reporting principles
Covers major raw materials used in the alumina refining process and electrolysis process beyond what is included in the energy consumption data.

Alumina and aluminium fluoride are primarily used in the electrolysis process, whilst lime, sodium hydroxide, sulfuric acid and flocculants are primarily used in the alumina refining process. Flocculants are also used at Paragominas.

Materials

1 000 metric tons	**2016**	**2015**	2014	2013	2012
Alumina	**3 331**	3 256	3 153	3 111	3 085
Aluminium fluoride	**32**	33	31	29	30
Lime	**60**	57	60	52	53
Sodium hydroxide (caustic soda)	**638**	592	611	526	626
Sulfuric acid	**20**	12	20	16	20
Flocculants [1)]	**6**	5	5	4	5

1) We started reporting flocculants in 2015. We are working to further improve the reporting.

GRI-reference: GRI Standards 301-1

Sulfuric acid use was lower in 2015 than in both 2016 and 2014. This is due to less rainfall and improved lye (of sodium hydroxide) management at Alunorte with consequent reduced need for neutralization by sulfuric acid. The use of lime, sodium hydroxide and sulfuric acid varies with the production of alumina, see note E7.

E4.2 Water

Reporting principles
Except for some water losses through steam emissions, water withdrawn is generally treated according to site specific discharge permits before discharged to local water recipients.

Total water withdrawal by country

Million m^3	**2016**	2015	2014	2013	2012
Brazil	**33.25**	32.77	31.90	32.39	38.72
Germany	**2.02**	2.08	2.08	2.01	1.54
Norway	**193.74**	194.61	184.38	197.77	195.21
Other	**0.67**	0.64	0.73	0.69	0.68
Total	**229.68**	230.10	219.09	232.86	236.16

Historical figures are updated due to Hydro Husnes becoming a fully-owned smelter and the divestment of Slim, Italy, during 2015.

Total water withdrawal by source

Million m^3	Total 2016	Brazil	Germany	Norway	Other	Total 2015
Surface water (fresh water)	**61.46**	**17.04**	**0.00**	**44.35**	**0.06**	61.68
Surface water (sea water)	**148.43**	**0.00**	**0.00**	**148.43**	**0.00**	148.96
Ground water	**13.56**	**11.58**	**1.95**	**0.00**	**0.04**	13.54
Municipal water	**1.59**	**0.00**	**0.07**	**0.95**	**0.57**	1.47
Rain water	**4.63**	**4.63**	**0.01**	**0.00**	**0.00**	4.47
Total water withdrawal	**229.67**	**33.25**	**2.03**	**193.73**	**0.67**	230.10
Re-used water	**22.21**	**11.47**[1)]	**0.00**	**10.74**	**0.00**	21.02
Re-used water as a percentage of fresh water withdrawal	**27%**	**34%**	**-**	**24%**	**-**	26%

1) Alunorte uses waste-water from another organization, Paragominas. GRI-reference: GRI Standards 303-1 and GRI Standards 303-3

Almost 85 percent of Hydro's total water withdrawal occurs in Norway from fjords (sea water) and rivers (fresh water) that supply these fjords. These water sources are vast and are not significantly affected by Hydro's operations. All sea water withdrawal in Norway is used in fume treatment plants enabling the primary production smelters to clean dust, SO2 and fluoride emissions to air. Sea water absorbs the pollutants and mitigates the environmental impact from the production process. Around 7 percent of Hydro's total water withdrawal comes from the Parariquara river in Brazil and is used to supply the mine in Paragominas. The maximum withdrawal from this river is subject to restrictions to protect the ecological flow downstream

Withdrawal from water-stressed areas

	2016	2015	2014	2013	2012
Total water withdrawal from water-stressed areas (million m^3)	**2.19**	2.28	2.30	2.20	1.80

Historical figures are updated due to the divestment of Slim, Italy, during 2015.

GRI-reference: GRI Standards 303-1 and GRI Standards 303-2

The mapping of Hydro's sites using the WBCSD global water tool in 2016 showed that 2.19 million m^3 water of our overall freshwater input came from water-stressed areas, with regard to annual renewable water supply (according to the definition used by WBCSD). The vast majority of the sites included in the figure are classified as borderline water-stressed by the WBCSD global water tool. The figure hence represents a worst case scenario in terms of Hydro's water use in water-stressed areas (according to the WBCSD).

The increase from 2012 to 2013 was due to the restart of one of electrolysis potline at Neuss, Germany.

Total water discharge by destination

Million m^3	Total 2016	Brazil	Germany	Norway	Other	Total 2015
River	**35.79**	**19.61**	**0.02**	**16.16**	**0.00**	36.32
Sea	**176.02**	**0.00**	**0.00**	**176.02**	**0.00**	176.95
Sewage	**0.77**	**0.00**	**0.06**	**0.33**	**0.39**	0.74
Cooling water to river	**1.41**	**0.00**	**1.41**	**0.00**	**0.00**	1.43
Other (not specified)	**15.66**	**13.63**	**0.53**	**1.23**	**0.26**	14.67
Total water discharge	**229.64**	**33.25**	**2.02**	**193.73**	**0.64**	230.10

GRI-reference: GRI Standards 306-1

E4.3 Recycling

Reporting principles

Hydro uses a definition for recycling agreed on by the European Aluminium Association. The definition was implemented in Hydro in 2013. The definition divides recycled scrap in two: process scrap, which includes pre-consumer scrap downstream casthouses, and post-consumer scrap. The change in definition makes recycling volumes later then 2013 incomparable with previous years. Reporting of recycling data is drawn from the company's production software and ERP system.

The numbers include Hydro's share of scrap recycled by Alunorf, Germany (owned 50 percent), but does not include Hydro's relative share of scrap recycled by Sapa (also owned 50 percent by Hydro). Qatalum does not have recycling facilities.

Recycling

1 000 metric tons	**2016**	2015[1)]	2014	2013[2)]	2012
Recycled post-consumer scrap	**138**	134	111	151	
Recycled pre-consumer scrap	**1 078**	990	981	1 038	
Total recycled metal	**1 215**	1 123	1 092	1 189	

1) Volumes from Slim (divested at year-end 2015) are included up till 2015.

2) Pre- and post-consumer scrap volumes in 2013 included volumes recycled in Extruded Products up until end of August (74,000 mt pre-consumer and 25,000 post-consumer scrap). From 1 September 2014 Extruded Products became part of the new Sapa joint-venture with Orkla, which explains some of the reduction.

Note E5 - Waste

E5.1 Tailings and bauxite residue

Tailings from bauxite extraction consist of mineral rejects from the extraction process mixed with water. The tailings at Paragominas are stored in dedicated tailings dams, where the particles settle.

Bauxite residue, also known as red mud, is a by-product of the alumina refining process. The residue is washed with water to lower the alkalinity, and recovered caustic soda is recycled for use in the digestion process. Residue is dry-stacked as a clay-like substance with a low moisture content (for more information see page 62-63).

Tailings and bauxite residue

1 000 metric tons [1)]	**2016**	2015	2014	2013	2012
Tailings	**4 117**	4 128	4 333	3 313	4 215
Bauxite residue (red mud)	**6 426**	5 973	6 069	5 415	6 071

1) On a dry basis

GRI-reference: G4-MM3

The increase in bauxite residue is due to the increased production of alumina, please see note E7 to the environmental statements.

Tailings are stored in four dams. There are additionally two other ponds, one for spring protection and another for effluents clarification. The tailings generated in the bauxite's beneficiation process have no hazardous properties, thus it is not necessary to line the tailing dams.

As control measures, the water of the Rio Parariquara (water receiving body from the tailing ponds) are monitored with piezometers upstream and downstream of the dam. The risks related to all regular activities are evaluated by a survey of environmental aspects and impacts. These evaluations are related to real and potential impacts.

E5.2 Hazardous waste and other waste

Reporting principles
Waste is reported as specified according to the EU waste directive/waste catalog. During 2015 and 2016, Primary Metal have reviewed their waste reporting practices including classification of bi-products, resulting in even better standardization across business sites. Due to changes in reporting practice, the 2016 and 2015figures are not directly comparable with previous years. Also within Bauxite & Alumina waste reporting have been improved in 2016 and 2015, and are not comparable with previous years. Historical figures have still been included in this table, but omitted in the environmental statements.

Spent potlining (SPL) from the electrolysis cells used in primary aluminium production is defined as hazardous waste.

Hazardous and other waste

1 000 metric tons	**2016**	2015	2014	2013	2012
Spent potlining	**33.8**	41.9	43.5	31.3	26.0
Other hazardous waste	**162.0**	158.0	125.8	119.9	107.6
Total hazardous waste [1]	**195.8**	199.8	169.2	151.2	133.6
Other waste [2]	**291.2**	312.7	283.3	277.2	268.4
Total waste	**487.0**	512.5	452.6	428.4	402.0

1) Total hazardous waste according to Basel convention. GRI-reference: GRI Standards 306-4.
2) Some additional waste categories have been added to the reporting from our Bauxite & Alumina operations resulting in significantly higher amounts of "other waste" than reported in the 2015 annual report. Historical figures have been updated.

The production of spent potlining varies with the relining of smelter cells which is normally done every 4-7 years for established smelters. New plants will get a relining peak at the same interval after start-up.

E5.3 Waste treatment

Reporting principles
Waste sorted by treatment includes external and internal treatment. Tailings and bauxite residue are deposited in appropriately engineered and managed on-site landfills and are not included in the table below. Combustion without energy recovery is included under Other treatment. The 2016 figures are not comparable to 2014 or previous years due to the change in the reporting method, please see Reporting principles in E5.2.

Treatment of hazardous waste

	2016	2015	2014	2013	2012
Energy recovery	**11%**	13%	10%	7%	3%
Landfill	**46%**	45%	49%	52%	53%
Other treatment	**9%**	10%	15%	16%	17%
Reuse/recycling	**34%**	32%	25%	25%	27%

Treatment of other waste

	2016	2015	2014	2013	2012
Energy recovery	**4%**	3%	3%	2%	2%
Landfill	**39%**	46%	62%	66%	67%
Other treatment	**10%**	9%	9%	7%	8%
Reuse/recycling	**47%**	42%	27%	26%	23%

GRI-reference: GRI Standards 306-2

Note E6 - Biodiversity

E6.1 Overburden removed

Reporting principles
Total volume (in million metric tons) of overburden removed in Hydro's Paragominas mine in Brazil. This is the only mine within Hydro's consolidated operations.

Overburden removed

Million metric tons	**2016**	2015	2014	2013	2012
Overburden removed	**83**	70	78	71	103

GRI-reference: G4-MM3

Hydro uses strip mining in Paragominas, a technique that avoids the formation of an overburden stockpile. Thus, all overburden moved for mining purpose is used to reconstruct the topography of the strip previously mined, prior to rehabilitation of the mined areas. Part of the overburden (laterite) is also used for paving roads and for raising the heights of existing tailing dams.

The sterile soil is untreated and has no dangerous properties. Leaching potential due to overburden removal is negligible. There is a water resource management program in place to mitigate silting from the plateau areas.

E6.2 Land use and rehabilitation

Reporting principles
Areas are measured using the ArcGIS Platform. The rehabilitation data is reported to DNPM (the Brazilian Federal Mining Agency) and SEMAS (the environmental authority of Pará), as part of the suppression (deforestation) permit renewal process.

All areas stated in the table below give a snapshot of Paragominas' land use at an exact point in time. If a given area of land is to be developed, it will go through a number of steps. The first step is suppression, after which the area of land is classified either as *infrastructure* (if the area is to support the mining process) or as *area cleared for future mining* (if the area is to be mined that same year or in the future). The mined, but not yet rehabilitated area is then characterized as *rehabilitation gap* and will be rehabilitated as soon as possible and subsequently classified as *rehabilitated area*.

Land use and rehabilitation - Paragominas

Hectares per given point in time	**2016**	2015	2014	2013	2012
Permanent infrastructure	**2 447**	2 447	2 447	2 447	2 447
Temporary infrastructure	**1 705**	1 397	1 034	830	652
Rehabilitated area	**1 689**	1 509	1 231	707	776
Area cleared for future mining	**364**	424	458	712	631
Rehabilitation gap	**239**	299	564	933	758
Total area affected	**6 444**	6 076	5 734	5 629	5 264

GRI-reference: G4-MM1

We employ three different rehabilitation methods at Paragominas; traditional plantation, nucleation and natural regeneration. Nucleation is a new method for rehabilitation used since January 2013. After setbacks in 2013, it is showing promising results. The Paragominas site in the Brazilian state of Pará measures 18,763 hectares (ha). As of the end of 2016, a total of 6,444 ha have been affected by Hydro's operations. During 2016, we cleared (disturbed) 379 ha. We mined 422 ha of which 308 ha were dedicated to the new tailing ponds and other temporary infrastructure. In total, 181 ha were made available for rehabilitation and 180 ha were actually 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 rehabilitated and mined areas. The 2020 target of closing the current rehabilitation gap remains unchanged.

There are specific closure plan requirements for the Paragominas mine (rehabilitation of mine and tailing ponds). In addition there is a similar requirement for the bauxite residue disposal at Alunorte. Hydro has a dedicated corporate function which oversees legacy issues and addresses closure issues. For the time being such plans are developed on an ad hoc basis when relevant. Hydro's only consolidated mining operation is in Paragominas in Brazil.

E6.3 Endangered species

Reporting principles
In 2014 Hydro changed to a more robust reference database (federal database updated by ICMBio researchers) to classify the species. The conservation status of species registered in the reference databases can change. As a result, the species list is updated and species added, reduced and/or moved from one status to another. Reported species are cumulative and represent all species observed within the premises of Hydro's mining activities in Paragominas, Brazil, since monitoring and registration started in 2003. Some species included in the overview are covered by more than one database and the numbers can therefore not be summed across the columns. In total 65 different species, including 53 fauna and 12 flora, are covered by the overview.

Endangered species registered within the influence area of Hydro's mining activities (Paragominas)

	MMA [1]		SEMAS [2]		IUCN [3]	
Conservation status	Fauna	Flora	Fauna	Flora	Fauna	Flora
Critically endangered	3	0	2	0	2	0
Endangered	7	0	6	0	3	0
Vulnerable	25	0	7	6	17	5
Threatened	0	0	0	0	0	0
Near threatened	1	0	0	0	13	0
Data deficient	0	2	0	0	2	1
Total according to each red list classification	36	2	15	6	37	6

1) Federal Brazilian red list
2) Pará state red list
3) International Union for Conservation of Nature red list

GRI-reference: GRI Standards 304-4

Note E7 - Production volumes

Reporting principles
The figures reported below are total production volumes (100 percent) from consolidated activities only (Hydro's ownership share exceeding 50 percent). Alumina production includes Alunorte while primary aluminium production includes 100 percent of production at all Hydro's primary aluminium plants in Norway, Neuss in Germany, Slovalco in Slovakia and Albras in Brazil. These volumes are not directly comparable to the volumes reported in the financial statements. Alumina and primary aluminium production are by far the most energy intensive processes in Hydro.

Production volumes

1 000 metric tons	**2016**	2015	2014	2013	2012
Alumina production	**6 341**	5 962	5 933	5 377	5 792
Primary aluminium production	**1 744**	1 705	1 615	1 583	1 557

Hydro's production based on ownership equity can be found under Operational review in the section Financial and operating performance in this report.

Note E8 - Environmental data for 50/50-owned companies

Hydro has an ownership share of 50 percent in Alunorf, Qatalum and Sapa. As only operations owned more than 50 percent are included in most of the information in Hydro's viability performance statements, we have chosen to disclose certain environmental information about these companies and their performance. The reporting principles of each indicator might differ from the ones used by Hydro and in between the companies. For information about social data, see Note S14 to the social statements.

Environmental data for 50/50-owned companies

	Main product	Production, 1 000 metric tons	GHG emissions, scope 1, Million tons CO2e	GHG emissions, scope 2, Million tons CO2e	Total energy consumption, TWh	Fresh water used, Million m^3	Total waste disposed, metric tons	Total waste recycled, 1 000 metric tons
Alunorf	Rolled products	1 575[1)]	0.26	0.43	2.10	1.32	2 810	85% [2)]
Qatalum[3)]	Primary aluminium	613	4.65	0.07	9.20	0.55	14 709	22
Sapa	Extruded products	1365[4)]	0.56	0.50	3.66	5.85	108 000	81

1) The tonnage at Alunorf includes 30 mt of sheet ingots.
2) Recycling degree of total waste.
3) Figures for Qatalum are taken from Qatalum's Sustainability Report 2015 and relates to 2015
4) Tonnage sold

Social statements

For geographical distribution of total assets, investments and revenues, see note 7 to the consolidated financial statements.

Social performance

	Notes	% change 2015-16	**2016**	2015	2014	2013	2012	GRI Standards reference
Employee demographics								
Number of permanent employees	S1.1	(3)%	**12 911**	13 263	12 922	12 564	21 566	102-7
Share of women	S1.1	0.5[1)]	**13.6%**	13.1%	13.0 %	12.6%		
Number of temporary employees	S1.2	11%	**1 266**	1 144	966	765		102-8
Full-time equivalents for contractor employees	S1	23%	**9 500**	7 700	6 600	7 000	8 200	102-8
New employees	S1.3	(26%)	**658**	884	976	382		401-1
Turnover	S1.3	(0.1)[1)]	**4.6%**	4.7%	6.4%	5.6%	10.0%	401-1
Women in top 50 management	S3.1	(1)%[1)]	**29%**	30%	22%	25%	17%	405-1
Non-Norwegians in top 50 management	S3.1	(4)%[1)]	**32%**	36%	35%	35%	28%	405-1
Hydro Monitor Employee Engagement Index	S4		**83%**	N/A	73%	N/A	65%	
Payroll (NOK million)	S1.1	6%	**6 681**	6 323	6 498	5 681	8 971	201-1
Health and safety	S5							
Sick leave	S5.1	0.3 [1)]	**4.3%**	4.0%	3.8%	3.7%	3.2%	403-2
Total recordable injuries (TRI) rate [2)]	S5.1	(13)%	**2.6**	3.0	3.4	3.8	3.7	403-2
Employees		(13)%	**2.6**	3.0	3.2	3.4	3.4	
Contractors		(16)%	**2.6**	3.1	3.8	4.9	4.4	
Number of fatal accidents	S5.1		**0**	1 [3)]	0	1	0	403-2
Employees			**0**	1	0	0	0	
Contractors			**0**	0	0	1	0	
High risk incidents	S5.2	(24)%	**63**	83	96	132	121	403-2
Occupational illness rate	S5.3	(30)%	**0.7**	1.0	1.5	1.7	1.9	403-3
Current income tax (NOK million)	S7	41%	**1 988**	1 414	1 605	1 425	1 272	
Research and Development (NOK million)								
R&D funds received	S8	(10)%	**46**	51	66	55	47	201-4
R&D expenses	S8	12%	**370**	330	277	216	247	
Social investments								
Community investments, charitable donations and sponsorships (NOK million)	S9	(7)%	**28**	30	24	27	39	
Compliance	S10							
Cases reported through AlertLine	S10.1	108%	**173**	83	60	60	45	102-3
Confirmed instances of corruption	S10.1	-	**0**	0	0	0	0	205-3
Confirmed human rights breaches	S10.1	-	**0**	0	0	0	0	406-1/407-/408-1/409-1
Relocation of people	S10.3	-	**0**	0	0	0	0	G4-MM9
Training in business ethics	S10.4	103%	**4 561**	2 244	3 570	1 050	3 200	412-2/205-2
Training in competition law	S10.4	(82)%	**202**	1 093	44	150	300	205-2
Training in cyber security	S10.6	-	**5 448**					
Supplier audits	S10.5	(5)%	**123**	129	61			HDD-01
Potential and existing counter parties screened [4)]	S10.5	106%	**3 700**	1 800				414-1

Figures in brackets indicate a decrease.

1) Values are given as percentage points compared to previous year
2) Per million working hours. The numbers include discontinued operations.
3) A Hydro employee became victim of the Germanwings crash on business travel
4) Figures are based on the RDC Supply Chain Protection tool

Notes to the social statements

General reporting standards and principles

Data relating to health, safety and work environment have been prepared by individual reporting units in accordance with corporate procedures. This applies to all Hydro's operations, including consolidated subsidiaries, if not otherwise stated. Such data are based on the corporate reporting system for incident reporting, Synergi. All organizational units report incidents to the Synergi system on a regular basis in accordance with a corporate procedure on HSE incidents and sick leave data. Other employee data, including sick leave in Norway, are primarily based on the company's human resources SAP system.

Where applicable, we have indicated to which GRI Standards disclosure the different notes or parts of the notes are applicable. Please also see the social statements on the previous page for more such information.

Note S1 - Employees

Reporting principles

Data for Hydro's permanent and temporary employees are based on Hydro's human resources SAP system. Data presented represent status at year end, December 31, and include permanent employees only unless otherwise stated. Payroll is based on Hydro's consolidated financial statements. Payroll, as provided in the table below, does not include pension costs.

Temporary employees include among others apprentices, but exclude contractor employees. Legal requirements and customs may vary from country to country, making direct comparison difficult.

Number of full-time equivalents of contractor employees as included in the social statements is estimated based on the total hours worked by contractor employees (reported in Hydro's incident reporting system Synergi as basis for calculation of injury frequency) divided by 1850 working hours per year. Contractor employees represented in total about 9 500 full-time equivalents during 2016. The majority relates to Hydro's Bauxite & Alumina activities.

S1.1 Total employees by region, gender and age as well as payroll

Total employees by region and gender, and payroll

	Number of employees[1]					Payroll (NOK million)[2]				
	2016	2015	2014	2013	2012	**2016**	2015	2014	2013	2012
Norway	**3 689**	3 653	3 613	3 355	3 859	**3 001**	2 920	2 579	2 508	2 596
Women	**19%**	19%	18%	18%						
Men	**81%**	81%	82%	82%						
Germany	**3 555**	3 450	3 378	3 462	4 304	**2 201**	2 040	1 834	1 682	1 855
Women	**10%**	10%	10%	9%						
Men	**90%**	90%	90%	91%						
Slovakia	**490**	501	492	481	487	**94**	87	82	77	71
Women	**8%**	7%	8%	8%						
Men	**92%**	93%	92%	92%						
Other Europe	**245**	632	614	633	5 547	**129**	254	238	242	2 037
Women	**18%**	18%	17%	18%						
Men	**82%**	82%	83%	82%						
Total Europe	**7 979**	8 236	8 097	7 931	14 197	**5 425**	5 301	4 733	4 509	6 559
Brazil	**4 743**	4 830	4 631	4 443	4 922	**986**	905	1 133	1 076	1 182
Women	**13%**	12%	12%	11%						
Men	**87%**	88%	88%	89%						
Rest of the world	**189**	197	194	190	2 447	**270**	117	90	96	1 230
Women	**23%**	23%	26%	24%						
Men	**77%**	77%	74%	76%						
Total	**12 911**	13 263	12 922	12 564	21 566	**6 681**	6 323	5 956	5 681	8 971
Women	**14%**	13%	13%	13%						
Men	**86%**	87%	87%	87%						

1) Number of employees is based on where the employee is actually stationed, and will in some cases differ from the Country-by-country report, which shows in which legal company she or he is employed.

2) The joint operations Alunorf, Aluchemie and Skafså are excluded from the payroll figures in the table above. Those entities are included in Hydro's financial statements on a line-by-line basis. Please see note 2 to the consolidated financial statements for more information about joint operations.

3) The reduction in employees in "Other Europe" from 2015 to 2016 is due to the divestment of Slim, Italy, during 2015.

GRI-reference: GRI Standards 201-1 and GRI Standards 102-8

There have been no major changes to the organizational structure during 2016. Slim, in Italy was divested on 31 December and is included from 2015 and backwards. The increase in employees in 2014 is mainly due to the acquisition of Rio Tinto Alcan's share of Søral in Norway (now Hydro Husnes) and transfer of contractor employees to permanent employees in Bauxite & Alumina. The decrease in 2013 was mainly due to the merger between Hydro's former extrusion business and Sapa in 2012.

Age distribution total employees (permanent employees)

Age distribution	**2016**	2015	2014	2013	2012
Under 30	**12%**	13%	13%	13%	
30-50	**54%**	55%	56%	58%	
50 +	**33%**	32%	31%	29%	

GRI-reference: G4-EU15

S1.2 Employees by employment type and part-time employees

Total employees by employment type

Employment category	2016	2015	2014	2013	2012
Permanent employees [1]	**12 911**	13 263	12 922	12 564	
Temporary employees	**1 266**	1 144	966	765	
Women	**27%**	27%	23%	21%	
Men	**73%**	73%	77%	79%	

1) For gender split of permanent employees, see Note S1.1

GRI-reference: GRI Standards 102-8

The highest share of women among temporary employees is in Brazil (40 percent) followed by Norway (28 percent) and Germany (13 percent). Temporary employees include apprentices.

Part-time employees include all persons being employed in positions that are not full-time (less than 100 percent).

Part-time employees

Part-time employees [1]	2016	2015	2014	2013	2012
Norway	**2.0%**	2.4%	3.2%	2%	
Women	**3.5%**	7.7%	10.4%	6%	10%
Men	**1.6%**	1.2%	1.6%	1%	2%
Total employees	**1.2%**	1.4%	1.6%	1%	
Women	**5.7%**	10.2%	8.6%	6%	
Men	**0.6%**	0.4%	0.5%	-	

1) Data for 2016 includes 93 percent of Hydro's permanent employees globally, compared to 92 percent in 2015. We are working to further improve the reporting.

GRI-reference: GRI Standards 102-8

Hydro employees normally work full-time. The opportunity to work part-time is considered a benefit for which a special application must be made.

S1.3 New employees and turnover

New employee hires by age group, gender and country

		Age							
	2016				2015				2014
Region and gender	**Total**	**Under 30**	**30-49**	**50+**	Total[1]	Under 30	30-49	50+	Total
Brazil	**235**	**75**	**144**	**16**	595	250	316	28	736
Women	**19%**	**20%**	**20%**	**6%**	13%	14%	13%	11%	13%
Men	**81%**	**80%**	**80%**	**94%**	87%	86%	87%	89%	87%
Germany	**186**	**73**	**85**	**28**	85	27	53	7	39
Women	**12%**	**12%**	**13%**	**11%**	9%	15%	6%	14%	10%
Men	**88%**	**88%**	**87%**	**89%**	91%	85%	94%	86%	90%
Norway	**167**	**79**	**75**	**13**	104	31	65	8	125
Women	**23%**	**23%**	**23%**	**23%**	27%	26%	29%	13%	23%
Men	**77%**	**77%**	**77%**	**77%**	73%	74%	71%	88%	77%
Other	**70**	**30**	**32**	**8**	100	43	45	6	76
Women	**13%**	**10%**	**19%**	**-**	7%	2%	9%	17%	11%
Men	**87%**	**90%**	**81%**	**100%**	93%	98%	91%	83%	89%
Grand total	**658**	**257**	**336**	**65**	884	351	479	49	976
Women	**17%**	**18%**	**19%**	**11%**	14%	14%	14%	12%	14%
Men	**83%**	**82%**	**81%**	**89%**	86%	86%	86%	88%	86%

1) In 2015, six new employees, included under "Other", are not registered with age and/or gender are included in the 2015 totals.

GRI-references: GRI Standards 401-1, G4-EU15

The employee turnover rate includes resignations, retirements and manning reductions, but excludes closures and divestments.

Employee turnover by age group, gender and country

	Age								
	2016				2015				2014
Region and gender	**Total**	**Under 30**	**30-49**	**50+**	Total	Under 30	30-49	50+	Total
Brazil	**6.4%**	**4.5%**	**5.5%**	**13.1%**	7.4%	7.0%	7.1%	9.0%	10.9%
Women	**7.1%**	**6.1%**	**6.4%**	**17.9%**	8.7%	11.2%	6.8%	11.1%	11.6%
Men	**6.3%**	**4.2%**	**5.4%**	**12.8%**	7.2%	6.1%	7.2%	8.9%	10.8%
Germany	**1.7%**	**2.1%**	**0.7%**	**2.8%**	2.4%	0.5%	0.4%	5.3%	3.0%
Women	**2.1%**	**3.3%**	**0.6%**	**3.9%**	1.6%	-	0.6%	3.6%	2.5%
Men	**1.6%**	**1.9%**	**0.7%**	**2.6%**	2.5%	0.5%	0.4%	5.5%	3.0%
Norway	**4.1%**	**3.1%**	**1.8%**	**6.6%**	3.4%	1.6%	1.5%	5.9%	4.3%
Women	**4.1%**	**6.3%**	**2.3%**	**6%**	2.7%	1.6%	2.2%	3.8%	2.5%
Men	**4.1%**	**2.1%**	**1.7%**	**6.7%**	3.6%	1.6%	1.3%	6.3%	4.7%
Other	**8.3%**	**17.2%**	**5.3%**	**10.9%**	5.1%	7.2%	3.4%	8.3%	5.8%
Women	**8.0%**	**25%**	**4.2%**	**12.8%**	5.2%	-	6.6%	4.5%	4.9%
Men	**8.3%**	**16.9%**	**5.4%**	**10.6%**	5.1%	8.6%	3.0%	8.8%	5.9%
Grand total	**4.6%**	**4.5%**	**3.4%**	**6.7%**	4.7%	5.3%	3.7%	6.5%	6.4%
Women	**5.0%**	**6.1%**	**3.7%**	**7.1%**	4.7%	7.5%	3.9%	4.5%	5.7%
Men	**4.6%**	**4.2%**	**3.4%**	**6.7%**	4.7%	4.8%	3.9%	6.7%	6.5%

GRI-reference: GRI Standards 401-1

The employee turnover rate in 2016 was 4.6 percent for the global organization, down from 4.7 percent in 2015. Employee turnover for women has increased to 5.0 compared to 4.7 in 2015, whereas for men it has decreased marginally. In Germany and Brazil the turnover rate has further decreased, whereas in Norway it has increased. The general employee turnover rate in Brazil is higher than in most other countries where Hydro has significant operations.

Note S2 - Remuneration

Reporting principles
Data on gender related salary differences is based on local salary systems. Data on "highest paid employee" is based on note 9 in Hydro's consolidated financial statements for Norway and Brazil, while data for Germany has been collected from the German salary system.

S2.1 Gender related salary differences

All employees shall receive a total salary that is fair and competitive and in accordance with the local industry standard. Salaries in the organization are reviewed on a regular basis. There are no significant gender-pay differentials for employees earning collective negotiated wages.

S2.2 Highest paid employee

Highest paid employee includes fixed salary, pension, health insurance (Brazil only) and other benefits, but excludes bonuses.

Highest paid employee per country

		Highest paid employee [1]		
NOK thousand	% change 2015-16	**2016**	2015	2014
Brazil	(5)%	**4 393**	4 629	3 881
Germany [2]	(26)%	**2 898**	3 929	16 681[3]
Norway	(35)%[3]	**9 268**	14 300	11 339

1) Any severance pay is excluded from the "highest paid employee"- calculations to ensure consistency through reporting.

2) Please note that EVP and Head of Rolled Products, Kjetil Ebbesberg, is an expatriate working in Germany, but employed in Norway. He is not included in the table above. Further information can be found in note 9 to the consolidated financial statements.

3) The change mainly relates to pension benefits.

GRI-reference: GRI Standards 102-38 and GRI Standards 102-39

Please see note 9 to the Consolidated financial statements for more information.

S2.3 Standard entry level wage

Entry level wages are controlled by the labor agreement in Brazil. The ratio compared to national minimum wage was in 2016 both for women and men 1.12 in Barcarena and 1.86 in Paragominas. In Germany and Norway the entry level wages are defined by tariff agreements. In the Norwegian operations, minimum entry wage is about 13.5 percent higher than the tariff minimum. In the German operations the entry wage is 81 percent higher than the countrywide tariff minimum wage. There are no significant gender-pay differentials for employees earning collectively negotiated wages. (GRI reference: GRI Standards 202-1).

Note S3 - Diversity in management

S3.1 Women and non-Norwegians in management

Reporting principles

Data for the board of directors and Corporate Management Board (CMB) for Norsk Hydro ASA are counted per year end. Diversity data for Top 50 managers include level 1 and 2 managers, that is the members of CMB and the members of the management teams at the level below CMB. It is counted at year end and included in total 84 persons in 2016. For Top 200 managers, the data is based on the list of persons invited to the Hydro Summit in September 2016, in total 207 persons. The Hydro Summit is an annual meeting for top management in Hydro. The participants are nominated by the line organization.

Diversity in management

	Women					Non-Norwegians				
	2016	2015	2014	2013	2012	**2016**	2015	2014	2013	2012
Board of directors (10 members) [1]	**30%**	30%	30%	27%	27%	**20%**	20%	20%	27%	27%
Corporate assembly	**39%**	39%	35%	35%	35%	**-**	-	-	-	-
Corporate Management Board	**44%**	44%	29%	29%	25%	**11%**	11%	29%	14%	25%
Top 50 managers	**29%**	30%	22%	25%	17%	**32%**	36%	35%	35%	28%
Top 200 managers	**25%**	24%	22%	23%	19%	**45%**	48%	43%	44%	53%

1) With three women among the seven shareholder elected members in the board of directors, Hydro complies with Norwegian legal requirements. All three employee representatives in the board of directors are men. Following Pedro José Rodriguez stepped down from the board of directors 1 January 2017, the board has currently nine members.

GRI-reference: GRI Standards 405-1

S3.2 Local representation in senior management

Reporting principles
Senior management is defined as the management group at each site (site managers and those reporting to them) in addition to business area management teams. *Local* is defined at country level for Norway and Germany, and at state level for Brazil. Of the ten members in Brazil of the Bauxite & Alumina management team, half are Brazilian citizens.

Local representation in senior management

Share of senior management hired from local community	**2016**	2015	2014	2013	2012
Norway	**100%**	100%	100%	100%	
Germany					
Grevenbroich plant	**100%**	100%	100%	100%	
Rolled Products management team	**55%**	69%	80%	80%	
Brazil					
Paragominas, Pará	**11%**	18%	23%	33%[1)]	
Barcarena, Pará	**21%**	26%	29%	33%[1)]	
Belem main office, Pará	**11%**	10%	33%	N/A[2)]	

1) In 2013, only combined figures were reported for Paragominas and Barcarena, equal to 33 percent.
2) Belem main office in Pará was established in 2014.

GRI-reference: GRI Standards 202-2

Hydro employs locals when necessary competence and capacity are available and normally uses expatriates only to secure employee development and the transfer of values and competence. Open positions in Hydro are normally posted at hydro.com and in local media. To secure competence transfer, it is important that there are also senior employees with experience from other units. This may even be the case at the blue-collar level, especially during start-up of new plants or equipment. Where adequate competence and capacity are available, most employees come from the local community and adjacent areas.

Note S4 - Hydro Monitor

Reporting principles
Hydro Monitor is carried out for all employees every second year. The next survey will be in 2018.

The *Employee Engagement Index (EEI)* measures the extent to which employees are motivated to contribute to organizational success,and are willing to apply discretionary effort to accomplishing tasks important to the achievement of organizational goals. The *Performance Excellence Index (PEI)* measures among other things to which degree systems and processes are in place.

Hydro Monitor

	2016	2015	2014	2013	2012
Employee Engagement Index (EEI)	**83%**	N/A	73%	N/A	65%
Women	**85%**	N/A	74%	N/A	N/A
Men	**82%**	N/A	73%	N/A	N/A
Performance Excellence Index (PEI)	**82%**	N/A	75%	N/A	72%
Response rate	**89%**	N/A	92%	N/A	92%

The long-term ambition is to be among the top 25 percent companies worldwide on EEI (IBM External norm) which is currently equivalent to 78 percent. There is no external norm for the PEI index. The most important part of Hydro Monitor is follow-up. All units had action plans by 1 October 2016, based on their survey results.

Note S5 - Health and safety

Reporting principles
Standardized statistics are prepared and reported to management on a monthly basis. Data covers all organizational units within Hydro, including sales offices and administrative functions.

S5.1 Total recordable injuries (TRI), Lost time injury (LTI) and sick leave

Total recordable injuries (TRI) index is calculated as the number of TRI per one million hours worked. TRI include LTI + RWC + MTC. *Lost time injury (LTI)* is a personal injury at work leading to unfitness for work and absence beyond the day of the accident. *Restricted work case (RWC)* is a personal injury at work that does not lead to absence beyond the day of the accident, because of alternative job assignment. *Medical treatment case (MTC)* is treatment, other than first aid, administered by a physician or registered professional personnel under the standing orders of a physician.

Contractors are persons who are under contract to execute work for Hydro, and who are under the direct supervision of the contractor, but at Hydro premises under Hydro's indirect supervision.

Fatal accidents are reported both in absolute figures and as a *fatal accident rate* measuring number of work related fatal accidents per 100 million working hours as a five-year rolling average.

Sick leave for Hydro globally includes all absence due to both injuries, work related and other illness, measured as number of hours lost due to sick leave as percent of number of hours worked plus number of hours lost due to sick leave.

Sick leave, Norway includes all absence due to illness, measured as number of days lost due to sick leave as percent of number of possible working days excluding holidays.

There are challenges in ensuring consistent reporting practice on sick leave due to legislative and cultural differences between countries.

Lost-time injuries, fatal accidents and sick leave

	2016	2015	2014	2013	2012
Lost-time injuries (LTI) [1]	**0.9**	1.2	1.3	1.7	1.9
Employees	**1.2**	1.4	1.5	2.0	1.9
Contractors	**0.6**	0.9	1.1	1.0	1.8
Total fatal accident rate [2]	**0.9**	1.7	1.5	2.7	2.8
Employees	**0.7**	1.0	0.6	0.5	1.6
Contractors	**1.4**	3.1	3.7	4.0	4.8
Total fatal accidents	**0**	1	0	1	0
Employees	**0**	1[3]	0	0	0
Contractors	**0**	0	0	1	0
Sick leave	**4.3%**	4.0%	3.8%	3.7%	3.2%
Sick leave, Norway	**4.4%**	4.3%	4.4%	5.1%	4.6%
Women	**4.8%**	4.9%	5.2%	6.6%	5.7%
Men	**4.3%**	4.2%	4.2%	4.8%	4.0%

1) Number of lost-time injuries per million working hours. The numbers include discontinued operations.
2) Number of fatalities per 100 million working hours, five-year rolling average
3) A Hydro employee became the victim of the Germanwings crash on business travel

GRI-reference: GRI Standards 403-2

Total recordable injuries (TRI)

	2016	2015	2014	2013	2012
Total recordable injuries (TRI) [1]	**2.6**	3.0	3.4	3.8	3.7
Employees	**2.6**	3.0	3.2	3.4	3.4
Contractors	**2.6**	3.1	3.8	4.9	4.4
TRI Norway	**3.9**	3.6			
Employees	**3.0**	2.8	1.5	2.4	
Contractors	**10.0**	11.1	15.8	18.2	
TRI Germany	**3.9**	6.6			
Employees	**3.5**	5.7	7.0	4.9	
Contractors	**5.7**	12.7	20.8	25.1	
TRI Brazil	**1.8**	1.8			
Employees	**1.6**	1.6	2.2	2.8	
Contractors	**1.9**	1.9	2.4	4.1	
TRI Other countries	**2.7**	4.2			
Employees	**3.3**	3.6	3.7	3.8	
Contractors	**0.0**	7.3	4.3	6.4	

1) Number of recordable injuries per million working hours. The numbers include discontinued operations

GRI reference: GRI Standards 403-2

The most dominant types of injuries in 2016 were damages to fingers and hands, representing near half of all recorded injuries. Injured legs, knees, ankles and feet represent 17 percent while arms, elbows, shoulders and wrists represent 15 percent. Damages to face, eyes and head accounted for 16 percent of the recorded injuries. Hydro is not reporting these figures per gender as this can be in conflict with privacy protection considerations.

Following introduction of a new HR system in Brazil, we discovered in 2016 that the number of hours have been underestimated in the Brazilian organization. Figures for 2016 have been updated and should represent the correct picture. For historical figures, the reported TRI rates have been lower than the actual TRI rate, mainly affecting the Brazilian part of the organization and to a minor degree Hydro as a whole.

S5.2 High risk incidents (HRI)

High risk incidents (HRI) rate is calculated as the number of *major accidents* and *other incidents with major potential* per million hours worked, employees and contractors combined.

High risk incidents (HRI)

	2016	2015	2014	2013	2012
Major accidents	**2**	4	3	6	7
Other incidents with major potential	**61**	79	93	126	114
HRI rate [1]	**1.57**	2.07	2.68	2.76	2.14

1) Cases per million hours worked, employees and contractors combined. Cases include major accidents and incidents with major potential.

GRI-reference: GRI Standards 403-2

S5.3 Occupational illness rate

Occupational illness rate measures incidents of diseases related to occupation. Since 2013, we have a common definition for reporting of occupational illnesses. It is required as a minimum that all potential cases shall be reported. The majority of the reports are from our Norwegian sites, showing that there is room for further improvement in our global reporting. Development is tracked through a corporate reporting tool. Actual occupational illnesses are defined by Hydro as illnesses that

- Have been confirmed by relevant authorities / insurance companies or doctors (depending on the national system)
- Have lead to any kind of permanent disability, disablement pension, loss of function and/or are a listed occupational disease

Occupational illness rate

	2016	2015	2014	2013	2012
Occupational illness rate [1]	**0.7**	1.0	1.5	1.7	1.9

1) Cases per million working hours. The numbers include discontinued operations. Our reporting processes do not yet ensure complete reporting, specifically outside Norway.

GRI-reference: GRI Standards 403-3

Most of the reported cases are related to noise. We work continuously to avoid new occupational illnesses. We use our proactive tool for work environment risk assessment to identify employees at risk of developing occupational illnesses and implement risk reducing measures e.g. substitution of hazardous chemicals, noise reduction, personal protective equipment to avoid development of new occupational illness cases. We have e.g. reduced the frequency of occupational illness cases related to noise and pot room asthma. The tool has also helped identifying occupational illnesses related to e.g. musculoskeletal and vibration disorders.

S5.4 - Community health

Through our activities in Brazil, we have significant activities in areas where some tropical diseases are present. Malaria is only present to a limited degree in areas where we have consolidated operations. Minority-owned MRN has a program to limit malaria both within its premises and in the neighboring communities. This includes information given to employees, their families and riverside dwellers. Employees are informed about the risk and treatment is given through the operations' health service. HIV/AIDS is an increasing concern in Brazil. Hydro has paid for the construction of an HIV/AIDS center in the city of Paragominas, which is operated by the authorities. The center gives information about how to prevent the disease as well as treatment to the infected. Several of our Brazilian sites participate annually in campaigns to prevent sexually transmitted diseases. In 2015, the Zika virus started spreading in Brazil. Information about preventive measures is given to local employees as well as employees traveling to Brazil.

Note S6 - Labor rights

Reporting principles

The vast majority of operational sites within Primary Metal and Energy have established formal joint management-worker health and safety committees covering all employees. At certain sites, also contractor employees are included. Hydro's external reporting on formal joint management-worker health and safety committees is still under development to include also the other business areas.

No strikes exceeding one week and no lock-outs took place in 2016. All Hydro's major sites in Europe and Brazil are unionized. These sites represent 96 percent of our employees worldwide.

Note S7 - Current income tax

Reporting principles
Current income tax is based on Hydro's financial statements.

Current income tax

NOK million	**2016**	2015	2014 [1)]	2013	2012
Norway	**690**	563	565	798	755
Germany	**251**	230	432	203	229
France	**9**	11	2	11	8
Italy	**-**		4	3	(4)
Great Britain	**5**	7	-	2	-
Spain	**7**	7	13	(1)	16
The Netherlands	**(3)**	(2)	1	-	-
Slovakia	**36**	115	67	103	75
Other	**9**	35	11	14	46
Total EU	**315**	403	530	336	371
Switzerland	**-**	(15)	14	7	43
Other Europe	**-**	-	-	-	-
Total Europe	**1 006**	952	1 109	1 141	1 169
USA	**16**	14	-	-	-
Canada	**87**	6	113	148	37
Brazil	**853**	396	343	111	42
Other Americas	-	-	-	-	15
Asia	**19**	13	15	17	1
Australia and New Zealand	**7**	33	25	13	8
Total outside Europe	**982**	462	496	288	103
Total	**1 988**	1 414	1 605	1 429	1 272

1) The joint operations Alunorf, Skafså Kraftverk, Tomago and Aluchemie are included in the figures above, but are not included in the other parts of the social or environmental statements, except for certain information in note E8 and S14. Those entities are included in Hydro's financial statements on a line-by-line basis. Please see note 2 to the consolidated financial statements for more information about joint operations.

GRI- reference: GRI Standards 201-4

Hydro is subject to income taxes in the countries where we operate. The nominal tax rates typically vary between around 20 and 35 percent. The effective tax rates may differ from the nominal tax rates, among other things as a result of differences in depreciation rates and other tax deductions.

- The marginal tax rate for our power production in Norway is 58 percent.
- Qatalum, a 50/50 joint venture with Qatar Petroleum, has been granted a 10 year exemption from income taxes in Qatar, expiring in 2020. Thereafter, Qatalum will pay income tax at the generally applicable income tax rate in Qatar.
- The general corporate income tax rate in Brazil is 34 percent. Hydro's bauxite, alumina and aluminium operations in Brazil have been granted income tax incentives encouraging investments in the northern provinces of Brazil, reducing the tax rate on operating income to between 20 and 34 percent. In addition, Hydro's operations in Brazil are subject to a number of significant indirect taxes.
- Hydro has bauxite, alumina and aluminium sales activities in Switzerland, and aluminium sales activities in Singapore. These activities are taxed at rates of around 10 percent.

Hydro reports according to the Extractive Industries Transparency Initiative and Norwegian legal requirements in countries where we have exploration and extractive activities (currently only Brazil), see Hydro's Country by country report on page 39. We also report on financial assistance from public organization related to R&D activities, see note S8.

Note S8 - Research & Development (R&D)

Reporting principles
R&D expenses are collected through Hydro's financial reporting, see Hydro's financial statements note 20.

R&D funding is gathered from Hydro's corporate technology office and our main R&D centers, located in Årdal (smelter technology) and Sunndal (alloys and casting) in Norway, Bonn in Germany (Rolled Products) and Brazil (Bauxite & Alumina). Funding received are actual income through the year. See page 115 (Cooperation with other institutions) for more information.

Research & Development

NOK million	**2016**	2015	2014	2013	2012
Research & Development expenses[1)]	**370**	330	277	216	247
Funding received[2)]	**46**	51	66	55	47

1) For 2011 and 2010 R&D expenses include Hydro's former Extruded Products business area, now part of Sapa.
2) Received funding in 2016 accumulated to NOK 46 million. In addition comes NOK 553 million related to the Karmøy Technology Pilot.

GRI-reference GRI Standards 201-4

We have been granted funding amounting to approximately NOK 244 million - to be received in the years to come - provided that certain research projects are carried out. Some funds might already have been received. In addition comes the support from Enova to the Karmøy Technology Pilot, granted in 2014, amounting to a total of about NOK 1.6 billion across several years, see page 115.

Note S9 - Community investments, charitable donations and sponsorships

Reporting principles
All sites report annually on all community investments, charitable donations, sponsorship and other related initiatives. The reporting includes monetary amounts and time spent and benefits to the company as well as to the communities. Outcomes for Hydro and the society are also included in the reporting requirements.

Community investments

NOK million	**2016**	2015	2014	2013	2012
Community investments	**19**	13	11	16	
Total community investments, charitable donations and sponsorships	**28**	30	24	27	39

Note S10 - Compliance

Reporting principles
Compliance data has mainly been collected through Hydro's AlertLine, quarterly compliance reporting by business areas and a self-assessment filled in by each business area at year-end. Some information have been collected through other sources including Hydro's Legal office and Procurement Network.

S10.1 Reported and confirmed cases of non-compliance

Cases reported through AlertLine

	2016	2015
Number of cases reported through AlertLine	**173**	83
Dismissals due to breaches of Hydro policy[1)]	**5**	23
Alleged cases of discrimination	**45**	3
Confirmed cases of discrimination	**9**	1
Alleged cases of fraud and/or conflict of interest	**21**	19
Confirmed cases of fraud and/or conflict of interest	**1**	5

1) Total number of dismissals as a result of investigations of cases reported through AlertLine

GRI-reference: GRI Standards GRI 406-1 and 205-3

S10.2 Legal claims

There is still one legal dispute between five of the 120 relocated families and the alumina refinery project CAP in Barcarena in Brazil. These families claim to have the right to remain on the land that is occupied by CAP. However, after a preliminary analysis, the Trial Court denied their requests, which was confirmed by the Court of Appeals, through an interlocutory appeal. The case is still waiting for the final first instance decision. There were no major developments in 2016.

Following an overflow of storm water from the bauxite residue deposits at Alunorte in 2009, there are still legal issues pending. In 2012, more than 5,300 claims related to the overflow were filed in the local court. By the end of 2016, a total of 3,593 cases have been decided by the first level civil court in Barcarena, Pará, all in Alunorte's favor, 2,795 of these decisions have been appealed to the second level civil court, located in Belem, Pará, which rendered decisions in 599 appeal cases, all in favor of Alunorte. The Court upheld the first instance decisions on the basis that there is no evidence that the plaintiffs suffer or have suffered from the alleged damages related to the spillage of bauxite residue contaminated water.

A civil class action was filed by the Municipality of Ulianópolis against Albras and Alunorte and several other companies in September 2011 to seek remediation of environment damage and the condemnation of the companies in collective moral damages, considering their contribution to environmental damages related to disposal of waste through Companhia Brasileira de Bauxita (CBB) prior. Both Albras and Alunorte are parties to the class action, as both delivered waste to CBB prior to 2003. The class action was filed after an attempt, from the Municipality of Ulianópolis, together with the State Environmental Agency - SEMAS, to negotiate a settlement with all the companies involved. Albras and Alunorte did not agree to the terms of the proposed settlement because they had already removed their waste from the site.

The Federal and State Public Prosecutors, in a joint initiative, filed a Public Class Action against Albras, Alunorte, Imerys, Votorantim, Oxbow, Yara (companies located in the industrial district of Barcarena) and the Municipality of Barcarena, the State of Pará and the Federal Union (Brazilian Government). The purpose of the lawsuit is to protect the rights of the local people of Barcarena that allegedly consume contaminated water due to the industrial activities carried on the municipality. The prosecutors argue that there is not enough structure for the public authorities inspection and control responsibilities in relation to the industrial activities in Barcarena, and that the industrial district has a long history of environmental accidents, amounting to at least 27 incidents since the year 2000. Albras and Alunorte have waste and disposal management systems in accordance with applicable legislation and licenses and seek to apply best industry practices.

S10.3 Relocation of people

Relocation of people may at times be necessary in connection with our operations. No relocations took place in 2016 from sites owned by Hydro. However, the government of Pará state in Brazil is in the process of resettling about 1,600 families who live in an area under development for industrial activities. The area is not related to Hydro's activities, but is in close proximity to two of the industrial ports of Barcarena, one which is state-owned but operated by Alunorte and used by Alunorte and Albras. Hydro monitors the process which has not yet been initiated.

Three sites in the Barcarena area in Brazil have been illegally occupied by approximately 500 people over the last 12 months. In line with Brazilian Law, and with Hydro's cooperation, national and legal authorities are in the process of formulating a plan to repossess this occupied area.

S10.4 Compliance training

In 2016, a total of 4,561 employees participated in training on anti-corruption. This includes 968 participants in Code of Conduct e-learning course, 2,529 employees completing Hydro's e-learning course "Preventing Bribery and Corruption", and a total of 1,064 employees who participated in classroom training. Furthermore, a total of 343 employees participated in training on competition law compliance. In addition, 284 employees participated in classroom training in CSR and human rights, mainly on how Hydro's corporate social responsibility aspirations support our business strategy and on responsible sourcing.

S10.5 Screening of business partners and supplier audits

As part of the integrity risk management process, approximately 3,700 potential or existing counter-parties were screened for human rights violations, corruption, financing terrorists, money-laundering, politically exposed persons and violations relating to sanctions and export. This mostly relates to suppliers, but also some customers, agents and other business partners were included. In addition to integrity risk procedures embedded in the procurement process, new business partners related to most Norwegian operations and also operations in Brazil, are screened before registered in our ERP system. Furthermore, all suppliers, customers and other business partners registered in our main accounting systems are screened on a weekly basis against recognized international sanction lists, in particular related to anti-terror. In total 123 supplier audits, of which all included HSE and 65 percent also included CSR related topics, were performed in 2016.

S10.6 Cyber security training

In 2016, a total of 5,448 employees completed the e-learning "Cyber security - introduction course". In total 5,134 employee completed the e-learning course "Information handling in Hydro" which also contains information about cyber security. A large proportion completed both courses.

Note S11 - Spending on local suppliers

Reporting principles

Data on local purchasing is gathered by the Hydro Procurement Network and covers consolidated activities. Selection of local partners and suppliers/contractors shall be based on competitive bidding to the extent feasible, and in compliance with competition laws and regulations as well as Hydro's requirements. A local supplier is here defined as a supplier situated in the same country as the operational site. Germany, Norway and Brazil are considered Hydro's most significant locations of operation based on economic importance. Hydro's external reporting on supplier management is still under development.

Spending on local suppliers vary from site to site depending on what is available. The local spending in our Brazilian operations was estimated to be 75 percent in 2016. Roughly 50 percent of total spend within Rolled Products (mainly operations in Germany and Norway), was spent within Germany and Norway. Most of the raw materials used at the aluminium plants in Norway are imported, while electricity and services are supplied locally. In the Norwegian smelters a relative low share, about 30 percent, of procurements are made locally, mainly services related to maintenance etc. Our Projects' procurement organization carries out major projects mainly in Brazil and Norway (Karmøy Technology Pilot and refurbishment of Norwegian power plants). Local spend in projects carried out in Brazil and the portion of local spending related to hydro power projects in Norway are very high. Across the different projects, local spend by Hydro's project organization is estimated to account for about 75 percent of spend.

Note S12 - Public affairs and lobbying

Reporting principles
Data on public affairs and lobbying is gathered from Hydro's Communication department in Norway, EU, Germany and Brazil and covers consolidated activities.

In total seven and a half full-time equivalents (FTE) are dedicated to public affairs and lobbying. This includes two FTEs in each of Brazil and Norway, 2.5 FTE in the EU (Brussels office) and one additional FTE in Germany, the same as in 2015. In 2016 we spent in total NOK 9 million excluding salaries and office costs on public affairs and lobbying, mostly related to memberships in different industry associations. Within the EU, lobbying activities are publicly reported through the EU Transparency Register.

Note S13 - Certifications

Reporting principles
According to Hydro's policy, all operational sites shall comply with, but not necessarily be certified according to, ISO 9001 and ISO 14001 and - within 2020 - with OHSAS 18001. Certification according to these standards is a decentralized responsibility based on identified business needs.

Hydro's power plants in Norway have chosen not to be certified. However, they are fulfilling the requirements given in the mentioned standards. In addition, the power plants need to comply with the requirements given by the Norwegian water and energy authority (NVE), i.e concessions for operations as well as environmental, third person safety, security and emergency preparedness regulations. The table below shows the distribution of certification of the other operational sites in Hydro.

	ISO 9001	ISO 14001	OHSAS 18001	ISO 50001	ISO/TS 16949	Other standards
Share of operational sites certified	89%	74%	48%	52 %	30%	19%

Note S14 - Social data for 50/50-owned companies

Reporting principles
Hydro has an ownership share of 50 percent in Alunorf, Qatalum and Sapa. As only operations owned more than 50 percent are included in most of the information in Hydro's viability performance statements, we have chosen to disclose certain social information about these partly-owned companies and their total performance. The reporting principles of each indicator might differ from the ones used by Hydro and in-between the companies. For information about environmental data, see Note E8 to the environmental statements.

Social data for 50/50-owned companies

	Main product	Number of employees	Share of women	TRI, employees	TRI, contractors	LTI, employees	LTI, contractors	Fatal accidents
Alunorf	Rolled products	2 273	4.1%	2.3	NA	0.9	NA	0
Qatalum[1)]	Primary aluminium	1 141	3.6%	1.2	1.8	0.6	0.9	0
Sapa	Extruded products	22 400	18.3%	3.3 [2)]	3.3 [2)]	1.5 [2)]	1.5 [2)]	0

1) Figures for Qatalum are taken from Qatalum's Sustainability Report 2015 and relate to 2015
2) Employees and contractor employees combined

GRI index

From 2016, we use the GRI Standards for voluntary reporting of sustainable development. The guidelines comprise economic, environmental and social dimensions relating to an enterprise's activities, products and services. GRI collaborates with the United Nations Environment Programme and UN Global Compact. Hydro has reported according to GRI since 2003.

We believe that our reporting practice is consistent with GRI's reporting principles in all material respects. We report in adherence "Core" as defined by the GRI Standard 101, and include the GRI G4 Mining & Metals supplement and certain relevant aspects of the G4 Electric Utilities sector supplement in our reporting.

The report is externally assured by KPMG. The external assurance, as outlined in the Independent Auditor's Assurance report, concludes that the report is presented, in all material respects in accordance with the GRI Standards (2016), see page 152.

The GRI Index, including the full definition of each indicator and references to specific sections in this report as well as additional information, can be found on www.hydro.com/gri

UN Global Compact Communication on progress

We support the principles of the UN Global Compact. Human rights, international labor standards, working against corruption and environmental considerations are fundamental to our approach to corporate responsibility.

Hydro has played an active role in the Global Compact since its formation. Our commitment is expressed by the President & CEO in his letter to shareholders on page 6 of this report. Our Communication on progress (COP) in relation to the Compact's 10 principles is at the Advanced level and thus also reflects the Global Compact's 21 advanced criteria. The consistency of the information in Hydro's Viability Performance reporting 2016 with the information in the Hydro Communication on Progress 2016 has been reconciled by our auditors, see page 152. A complete report can be found at www.hydro.com/globalcompact

ICMM

Hydro is a member of the International Council on Mining and Metals and reports according to the ICMM requirements. That includes Hydro's reporting in accordance with the GRI Standards, see the section about GRI above. The Viability Performance 2016 reporting is prepared in line with the requirements found in the ICMM 10 principles and position statements. The complete Viability Performance 2016 reporting is – according to the ICMM requirements – assured by our external auditor, please see page 152.

ASI

Hydro is an active member of the Aluminium Stewardship Initiative (ASI). ASI's mission is to recognize and collaboratively foster the responsible production, sourcing and stewardship of aluminium. We have been involved at all stages in the multi-stakeholder development of ASI standards to date. We are continuing our participation in ASI to develop the supporting systems for a credible and effective third party certification platform, which is expected to be launched in late 2017.

Hydro reports in the GRI index 2016 on how we relate to ASI's 11 principles and underlying criteria. This is also included in external auditor's consistency check of Hydro's GRI index 2016. For the full GRI index, see www.hydro.com/gri

UN Sustainability Development Goals

The Sustainable Development Goals (SDG) embrace a universal approach to the sustainable development agenda. They explicitly call on business to use creativity and innovation to address development challenges and recognize the need for governments to encourage sustainability reporting. Hydro uses the SDG Compass, a tool built in a partnership between GRI, UN Global Compact and the World Business Council on Sustainable Development, to make a high-level review on how we relate to the UN Sustainability Development Goals. This review is included in the GRI index 2016 and is also included in external auditor's consistency check of Hydro's GRI index 2016.

A more complete overview of Hydro's positive and negative impacts on each of the 17 SDG, can be found at www.hydro.com

UN Guiding Principles on Business and Human Rights

The United Nations (UN) Guiding Principles on Business and Human Rights (hereafter Guiding Principles) were endorsed by the UN Human Rights Council in June 2011. They have provided a clear, global understanding of governmental duties and corporate responsibilities for human rights. The Guiding Principles articulate that wherever and however a company operates, it must refrain from violating human rights. Companies are expected to be fully aware of their human rights impacts, take concrete steps to address them and implement measures to mitigate negative impacts in the future.

Hydro uses the GRI document "Linking G4 and the UN Guiding Principles" document as basis for how we adhere to the guiding principles, and report on this in the GRI index 2016. This is also included in external auditor's consistency check of Hydro's GRI index 2016. The most salient human rights issues are defined through our materiality analysis on page 95 in this report and include:

- Diversity and equal opportunity
- Freedom of association & collective bargaining
- Human rights assessment
- Indigenous rights
- Occupational health and safety
- Supply chain management (including child and forced labor)

Hydro has nothing to report for 2016 on the guiding principle B4 "Additional severe impacts".

Independent auditor's assurance report

To the Board of directors of Norsk Hydro ASA

Our conclusion

We have reviewed the Hydro Viability performance section in the Annual Report 2016 (hereafter 'Viability performance 2016') of Norsk Hydro ASA (further 'Hydro'). Based on our review, nothing has come to our attention to indicate that the Viability performance 2016 is not presented, in all material respects, in accordance with the GRI Sustainability Reporting Standards and internally developed criteria as described in the About the reporting section (page 118).

Our report on consistency

We report, to the extent we can assess, that the information on sustainability in the remaining sections of Hydro's Annual Report 2016 is consistent with the Viability performance 2016.

Basis for our conclusion

We conducted our engagement in accordance with the International Standard for Assurance Engagements (ISAE 3000): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. This standard requires, among others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to provide assurance on sustainability information, and that they comply with the requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure their independence. We do not provide any assurance on the achievability of the objectives, targets and expectations of Hydro.

Our responsibilities under ISAE 3000 and procedures performed have been further specified in the paragraph titled "*Our responsibility for the review of the Viability performance 2016*".

We believe that the review evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of the Corporate Management Board for the Viability performance 2016

The Corporate Management Board is responsible for the preparation of the Viability performance 2016 in accordance with the reporting criteria as described in the About the reporting section on page 118 in Hydro's Annual Report. It is important to view the information in the Viability performance 2016 in the context of these criteria.

The Corporate Management Board is responsible for such internal control as it determines is necessary to enable the preparation of the Viability performance 2016 that is free from material misstatement, whether due to fraud or error.

Our responsibility for the review of the Viability performance 2016

Our objective is to plan and perform the review assignment in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

We maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement has been performed with a limited level of assurance for the Viability performance 2016. Procedures performed in a limited assurance engagement are aimed at determining the plausibility of information and therefore vary in nature and timing from - and are less extensive than - a reasonable assurance engagement.

The procedures selected depend on our understanding of the Viability performance 2016 and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise. The following procedures for limited assurance on the Viability performance 2016 were performed:

- A risk analysis, including a media search, to identify relevant sustainability issues for Hydro in the reporting period;
- Evaluating the design and implementation of the reporting processes and the controls regarding the qualitative and quantitative information in the Viability performance 2016;
- Interviewing management at corporate level responsible for the sustainability strategy, policies, implementation, management, internal controls and reporting;
- Interviews with relevant staff at corporate level responsible for providing the information in the Viability performance 2016, carrying out internal control procedures on the data and consolidating the data in the Viability performance 2016;
- Visits to three production sites in Norway and Germany to review the source data and the design and implementation of controls and validation procedures at local level;
- Testing internal and external documentation, based on sampling, to determine whether the information in the Viability performance 2016 is supported by sufficient evidence;
- An analytical review of the data and trend explanations submitted by all entities for consolidation at corporate level;
- Interviews with selected external stakeholders;
- Assessment of Hydro's reporting in relation to Subject Matters 1 to 4 as set out in ICMM Sustainable Development Framework: Assurance Procedure;
- Assessment of Hydro's self-declared commitment to the Aluminium Stewardship Initiative's 11 principles and underlying criteria;
- Determination of the consistency of the sustainability information in the Hydro Communication on Progress 2016 with the information in the Viability performance 2016.

Oslo, March 14, 2017
KPMG AS

Arne Frogner
State Authorized Public Accountant

Wim Bartels
Partner

03: Financial and operating performance

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QUICK OVERVIEW

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 driven by lower margins and higher costs.

Bauxite production in Paragominas amounted to 11.1 million mt for the year while alumina production from Alunorte was 6.3 million mt.

Primary aluminium production was about 2.1 million mt and we delivered 2.9 million mt of casthouse products and liquid metal to internal and external customers.

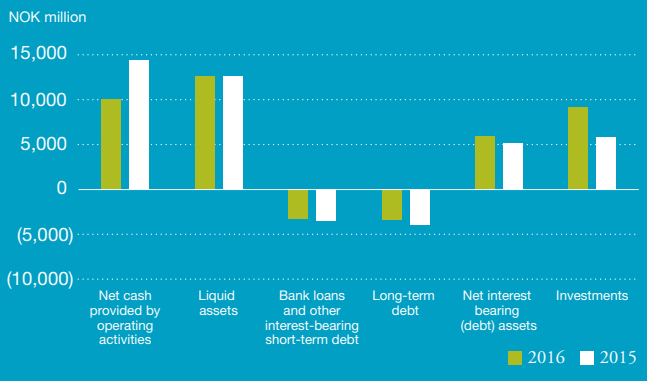
Downstream, we shipped roughly 0.9 million mt of rolled products to the market. Our energy business produced around 11.3 TWh of hydroelectric power. Hydro's share of Sapa sales volumes were about 0.7 million mt.

In 2016, net cash provided by operating activities of NOK 10.0 billion compared with NOK 14.4 the previous year. Hydro further strengthened its financial position, ending the year with a net cash position of NOK 6.0 billion compared with NOK 5.1 billion at the end of 2015

Underlying EBIT

NOK million	2016	2015
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	**380**	(19)
Underlying EBIT	**6 425**	9 656

Liquidity and financial position



Financial and operating review

Summary of underlying financial and operating results and liquidity

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%

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.

See Notes and references at the end of this section for footnote references in the following text.

For the full year, 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[1)], 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 driven by lower margins and higher costs.

Compared to the year 2015 the underlying EBIT for Bauxite & Alumina declined mainly due to lower realized alumina prices partly offset by positive currency effects from a weaker Brazilian Real and lower raw material prices.

Underlying EBIT for Primary Metals for 2016 declined substantially compared to 2015, due to lower realized all-in metal prices, partly offset by lower raw material costs and positive currency effects.

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.

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[2]. The lower all-in metal price during 2016 negatively affected the Neuss smelter result.

Underlying EBIT for Energy increased compared to the previous year mainly due to higher power prices and net spot sales. The increase in net spot sales is due to production and changes in the contract portfolio.

Underlying EBIT for Sapa in 2016 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.

Hydro made good progress on its "Better" improvement ambition targeting NOK 2.9 billion of annual improvements by 2019. For 2016, NOK 1.4 billion of annual improvements were delivered exceeding the 1.1 billion target.

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.

For 2016, Hydro's Board of Directors proposes an increased 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.

Reported EBIT and Net income

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.

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. 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. in 2015 the net foreign exchange loss also included losses on US dollar debt in Norway.

Operational review

Key Operational information	Year 2016	Year 2015	% change prior year
Bauxite production (kmt)[1]	**11 132**	10 060	11 %
Alumina production (kmt)	**6 341**	5 962	6 %
Primary aluminium production (kmt)	**2 085**	2 046	2 %
Realized aluminium price LME (USD/mt)	**1 574**	1 737	(9) %
Realized aluminium price LME (NOK/mt)	**13 193**	13 813	(4) %
Realized USD/NOK exchange rate	**8.38**	7.95	5 %
Rolled Products sales volumes to external market (kmt)	**911**	948	(4) %
Sapa sales volumes (kmt)[2]	**682**	682	-
Power production (GWh)	**11 332**	10 894	4 %

1) Paragominas production, on wet basis.
2) Hydro's 50 percent share of Sapa sales volumes.

Bauxite & Alumina

Bauxite & Alumina generated total revenues of about NOK 20 billion in 2016. Bauxite production in Paragominas amounted to 11.1 million mt for the year. Alumina production from Alunorte was 6.3 million mt for the year. Production levels for both operations reached record levels in 2016. Bauxite & Alumina sourced roughly 2.5 million mt of alumina in 2016. The business area employs around 3,700 people.

Primary Metal

Primary Metal generated about NOK 31 billion in total revenues in 2016. Production of electrolysis metal amounted to 2.1 million mt, from our plants in Australia, Brazil, Canada, Norway, Qatar and Slovakia. We delivered 2.2 million mt of casthouse products to internal and external customers from casthouses which are integrated with our primary aluminium plants. Deliveries included about 0.8 million mt of extrusion ingot, 0.3 million mt of sheet ingot and 0.4 million mt of foundry alloys and wire rod. We also sold about 0.7 million mt of standard ingot and liquid metal. Primary Metal employs around 4,000 people.

Metal Markets

Metal Markets generated total revenues of around NOK 43 billion in 2016. The business area employs around 640 people at plants and offices in Asia, Europe and North America. Our five remelters in Europe and two in the U.S. produced approximately 550,000 mt of metal products in 2016. We sold 2.9 million mt of metal products last year, including deliveries from the casthouses integrated with our primary smelters. Of this figure, we sold approximately 2.6 million mt to external customers.

Rolled Products

Rolled Products generated total revenues of approximately NOK 23 billion in 2016 with locations in 14 countries and around 4,000 permanent and 300 temporary employees. Approximately 911,000 mt of rolled products were shipped from our 5 European rolling mills.

Energy

Energy generated about NOK 7 billion in total revenues in 2016. We produced 11.3 TWh of renewable hydroelectric power, which is above our normal annual production of 10 TWh and higher than our production in 2015. The business area employs around 190 people, mainly in Norway.

Other and elimination

Hydro's share of total revenues for Sapa amounted to about NOK 27 billion in 2016. The business employs around 22,400 people in more than 40 countries. Hydro's share of Sapa sales volumes amounted to 682,000 mt of extruded products. Sapa has around 150 extrusion presses in operation at more than 100 production sites. The majority of operations are located throughout Europe and in North America as well as a strong foothold in emerging markets.

Market developments and outlook

Industry statistics, commentary and other information in the table and text in this section have been derived from analyst reports, trade associations and other public sources as well as Hydro's own analysis unless otherwise indicated. The information in this section is intended to provide an overview of the main developments in the key markets Hydro is exposed to, and does not have any direct relationship to the reported figures of Norsk Hydro. Statistics presented in prior reports may have been restated based on updated information. Currency rates have been derived from Norges Bank.

Market statistics	**Year 2016**	Year 2015	% change prior year
USD/NOK Average exchange rate	**8.40**	8.07	4 %
USD/NOK Period end exchange rate	**8.62**	8.81	(2) %
BRL/NOK Average exchange rate	**2.42**	2.45	(1) %
BRL/NOK Period end exchange rate	**2.65**	2.22	19 %
USD/BRL Average exchange rate	**3.48**	3.34	4 %
USD/BRL Period end exchange rate	**3.25**	3.96	(18) %
EUR/NOK Average exchange rate	**9.29**	8.95	4 %
EUR/NOK Period end exchange rate	**9.09**	9.62	(6) %
Bauxite & Alumina:			
Average alumina price - Platts PAX FOB Australia (USD/t)	**254.47**	301.00	(15.46) %
China bauxite import price (USD/mt CIF China)	**49**	53	(7) %
Global production of alumina (kmt)	**113 847**	112 238	1 %
Global production of alumina (ex. China) (kmt)	**54 855**	55 451	(1) %
Primary Metal and Metal Markets:			
LME three month average (USD/mt)	**1 610**	1 680	(4) %
LME three month average (NOK/mt)	**13 509**	13 508	0 %
Standard ingot premium (EU DP Cash)	**132**	237	(44) %
Extrusion ingot premium (DP)	**317**	518	(39) %
Global production of primary aluminium (kmt)	**58 926**	57 167	3 %
Global consumption of primary aluminum (kmt)	**59 638**	56 563	5 %
Global production of primary aluminium (ex. China) (kmt)	**26 945**	26 329	2 %
Global consumption of primary aluminum (ex. China) (kmt)	**28 188**	27 296	3 %
Reported primary aluminium inventories (kmt)	**5 027**	6 305	(20) %
Rolled products and extruded products:			
Consumption rolled products - Europe (kmt)	**4 712**	4 587	3 %
Consumption rolled products - USA & Canada (kmt)	**4 716**	4 670	1 %
Consumption extruded products - Europe (kmt)	**2 994**	2 949	2 %
Consumption extruded products - USA & Canada (kmt)	**2 364**	2 315	2 %
Energy:			
Average southern Norway spot price (NO2) (NOK/MWh)	**233**	177	32 %
Average mid Norway spot price (NO3) (NOK/MWh)	**266**	190	40 %
Average nordic system spot price (NOK/MWh)	**250**	187	33 %

Bauxite and alumina

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 15 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. Imports from Guinea soared to 11.9 million mt from 0.3 million mt in 2015 driven by the ramp-up of a new bauxite mine. Australia was the largest importer for China with 21.2 million mt, 9 percent higher compared to 2015.

According to Chinese import statistics, the monthly average delivered China bauxite price was relatively stable in 2016, ranging between USD 48 and 51 per mt. Prices averaged USD 49 per mt for the year, a decrease of 7 percent compared to 2015.

Primary aluminium

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. At the end of the year prices increased again to 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 premiums realized in 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 around 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.

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. Towards the end of 2016, the Chinese government announced that plans for new capacity for 2017 and 2018 will not be allowed. Additional capacity to come on-stream in 2017 should consequently be linked to plans committed by year-end 2016. This should reduce surplus capacity going forward. Primary demand is estimated to increase by around 4-6 percent, resulting in a an increasing surplus in 2017.

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.

Rolled products

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. Demand in the building and construction segment showed slight positive development, particularly in Spain and Italy. Demand in the beverage can segment was solid and the foil segment was stable, despite increased margin pressure from China. Demand in the general engineering segment showed a solid growth throughout the year.

Extruded products

North American demand for extruded products grew 2.1 percent in 2016. The increase was driven by higher building and construction activities and a stronger automotive demand partly offset by a weaker transportation segment. European demand for extruded products grew 1.5 percent in 2016. The increase was driven mainly by stronger automotive and transportation demand and a somewhat improved building and construction market.

Energy

In 2016, Nordic electricity prices increased compared to the previous year. After a brief cold spell at the start of the year, prices remained at low levels amid mild, wet and windy weather for the rest of the winter season. A somewhat drier than normal spring and delayed snow melting stabilized the prices. The hydrological situation worsened throughout the period into a deficit by early summer. During the summer season, prices remained relatively high and stable amid ongoing hydrological deficit. A dry start of the autumn season led to a deteriorating hydrological balance in the Nordic region. Prices increased further and peaked in November. From November, the hydrological balance improved and spot prices declined towards the end of the year. In the second half of the year, Southern Norway (NO1, NO2, NO5) power prices were negatively impacted by export cable restrictions, while power prices in Mid-Norway (NO3) coupled to power prices in Sweden, at a higher level due to nuclear maintenance and a negative hydrological balance.

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 Nordic hydrological balance ended the year at around 6 TWh[3)] below normal. Water reservoirs in Norway were 66 percent of full capacity at the end of the year, which is 6 percentage points below the normal level. Snow reservoirs were close to normal at the end of the year.

In Brazil, the economic downturn had a negative effect on demand for power for the second consecutive year. This, combined with higher than normal inflow in the south region and around normal in the southeast region, has overall resulted in a balanced power market over the year. Hydrological balance worsened towards the end of the year, particularly in the northeast and north regions. Despite the lowered power demand observed during the year, several revisions in demand forecasts from the system operator brought volatility to the short term market.

Additional factors impacting Hydro

Primary Metal has sold forward around 50 percent of its expected primary aluminium production for the first quarter of 2017 at a price level of around USD 1,725 per mt.[4)]

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 April 2016, the Norwegian Tax Appeal Board ruled in favor of Hydro in a tax dispute. Taxes related to losses on refinancing of subsidiaries in 2008 were denied for deduction in 2013 and the tax claim was paid in 2014. Following the decision in the Tax Appeal Board, Hydro recognized approximately NOK 600 million in reduced tax expense and approximately NOK 100

million in interest income in the first quarter of 2016. Hydro received the reimbursement in the second quarter of 2016. The tax authorities have notified Hydro that they will ask for a re-examination of the case by the National Tax Board (Riksskattenemnda).

A special resource rent tax, at 33 percent for the income year 2016, is imposed on hydropower production in Norway. Power supplied to Hydro's own industrial production facilities, has for resource rent tax purposes, been valued according to a price formula in historical Statkraft contracts. This price formula was repealed at the end of 2015, and replaced by a new reference price valid from 2017. The new reference price is based on long-term power supply contracts delivered to Hydro from external parties. For 2016, tax valuation on this volume is based on spot market price. The new regime established from 2017 will ensure a predictable tax basis and taxation in line with other hydropower producers supplying power to industrial production.

Underlying EBIT - Business areas

To provide a better understanding of Hydro's underlying performance, the following discussion of operating performance excludes certain items from EBIT (earnings before financial items and tax) and net income, such as unrealized gains and losses on derivatives, impairment and rationalization charges, effects of disposals of businesses and operating assets, as well as other items that are of a special nature or are not expected to be incurred on an ongoing basis. See Alternative Performance Measures (APMs) section in the Board of Directors' report.

Bauxite & Alumina

Operational and financial information	**Year 2016**	Year 2015	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	**1 196**	2 411	(50) %
Underlying EBIT (NOK million)	**1 227**	2 421	(49) %
Underlying EBITDA (NOK million)	**3 221**	4 404	(27) %
Alumina production (kmt)	**6 341**	5 962	6 %
Sourced alumina (kmt)	**2 541**	2 787	(9) %
Total alumina sales (kmt)	**8 843**	8 871	-
Realized alumina price (USD/mt)[1)]	**240**	276	(13) %
Bauxite production (kmt)[2)]	**11 132**	10 060	11 %
Sourced bauxite (kmt)[3)]	**8 499**	8 684	(2) %

1) Weighted average of own production and third party contracts. The majority of the alumina is sold linked to either the LME prices or alumina index with a one month delay.
2) Paragominas production, on wet basis.
3) 40 percent MRN off take from Vale and 5 percent Hydro share on wet basis.

Underlying EBIT for 2016 declined compared to 2015, mainly due to 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.

Primary Metal

Operational and financial information[1]	Year 2016	Year 2015	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	**2 285**	4 459	(49) %
Underlying EBIT (NOK million)	**2 258**	4 628	(51) %
Underlying EBITDA (NOK million)	**4 172**	6 581	(37) %
Realized aluminium price LME (USD/mt)[2]	**1 574**	1 737	(9) %
Realized aluminium price LME (NOK/mt)[2]	**13 193**	13 813	(4) %
Realized premium above LME (USD/mt)[3]	**263**	439	(40) %
Realized premium above LME (NOK/mt)[3]	**2 201**	3 492	(37) %
Realized NOK/USD exchange rate	**8.38**	7.95	5 %
Primary aluminium production (kmt)	**2 085**	2 046	2 %
Casthouse production (kmt)	**2 146**	2 059	4 %
Total sales (kmt)	**2 248**	2 159	4 %

1) Operating and financial information includes Hydro's proportionate share of underlying income (loss), production and sales volumes in equity accounted investments. Realized prices, premiums and exchange rates exclude equity accounted investments.

2) Realized aluminium prices lag the LME price developments by approximately 1.5 - 2 months.

3) Average realized premium above LME for casthouse sales from Primary Metal.

Operational and financial information Qatalum (50%)	Year 2016	Year 2015	% change prior year
Revenue (NOK million)	**4 801**	5 502	(13) %
Underlying EBIT (NOK million)	**341**	588	(42) %
Underlying EBITDA (NOK million)	**1 528**	1 750	(13) %
Net income (loss) (NOK million)	**98**	387	(75) %
Underlying Net income (NOK million)	**98**	350	(72) %
Primary aluminium production (kmt)	**306**	305	-
Casthouse sales (kmt)	**310**	320	(3) %

		Primary aluminium		Casthouse production	
Primary aluminium and casthouse production (kmt)[4]	**Location**	**2016**	2015	**2016**	2015
Albras	Brazil	**445**	434	**393**	386
Karmøy	Norway	**196**	192	**166**	158
Årdal	Norway	**205**	207	**222**	212
Sunndal	Norway	**406**	388	**466**	416
Høyanger	Norway	**65**	64	**92**	94
Husnes	Norway	**93**	91	**103**	97
Slovalco	Slovakia	**174**	171	**196**	191
Tomago (12.4%)	Australia	**73**	72	**67**	65
Qatalum (50%)	Qatar	**306**	305	**319**	319
Alouette (20%)	Canada	**122**	121	**122**	121
Total production Primary Aluminium		**2 085**	2 046	**2 146**	2 059

4) Production volumes for non-consolidated part owned companies represent our proportion of total production. For financial reporting purposes, Qatalum is accounted for as equity accounted investments, while Tomago and Alouette are consolidated on a proportional basis. Slovalco and Albras are fully consolidated in terms of financial results and volumes.

Underlying EBIT for Primary Metal declined substantially for 2016 compared with the previous year due to lower realized all-in metal prices[1], partly offset by lower raw material costs and positive effects from the stronger US dollar. Results from Qatalum declined compared with the previous year due to lower realized all-in metal prices.

The USD 180 per mt improvement program for our global joint venture smelters was completed by the end of 2016. Primary Metal made progress on the "Better Primary Aluminium" improvement program in 2016, however 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.

Metal Markets

Operational and financial information	Year 2016	Year 2015	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	**629**	180	>100 %
Underlying EBIT (NOK million)	**510**	379	35 %
Currency effects	**-**	(43)	-
Ingot inventory valuation effects	**(13)**	(29)	54 %
Underlying EBIT excl. currency and ingot inventory effects	**523**	451	16 %
Underlying EBITDA (NOK million)	**604**	480	26 %
Remelt production (kmt)	**548**	533	3 %
Metal products sales excluding ingot trading (kmt)[1)]	**2 893**	2 722	6 %
Hereof external sales (kmt)	**2 627**	2 474	6 %

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

Remelt production (kmt)	Location	Year 2016	Year 2015	% change prior year
Europe				
Clervaux	Luxembourg	**80**	81	(1) %
Deeside	United Kingdom	**56**	53	6 %
Rackwitz	Germany	**91**	86	6 %
Luce	France	**56**	52	7 %
Azuqueca	Spain	**78**	73	6 %
US				
Henderson	Kentucky	**82**	83	(1) %
Commerce	Texas	**105**	105	-
Total remelt production Metal Markets		**548**	533	3 %

Underlying EBIT for the full year of 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 was somewhat higher compared with 2015 mainly due to higher remelt production at our plants.

Rolled Products

Operational and financial information	Year 2016	Year 2015	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	**953**	154	>100 %
Underlying EBIT (NOK million)	**708**	1 142	(38) %
Underlying EBITDA (NOK million)	**1 507**	1 873	(20) %
Sales volumes to external market (kmt)	**911**	948	(4) %

Sales volumes to external markets (kmt) - Product areas[1)]			
Can & foil	**321**	331	(3) %
Lithography & automotive	**298**	300	(1) %
Special products	**292**	317	(8) %
Rolled Products	**911**	948	(4) %

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

Rolled Products production sites Volumes to external market (kmt)	**Location**	**Year 2016**	Year 2015	% change prior year
Grevenbroich / 50% share in Alunorf	Germany	**602**	587	3 %
Hamburg	Germany	**150**	146	3 %
Slim	Italy	**-**	68	-
Karmøy	Norway	**74**	72	3 %
Holmestrand	Norway	**86**	76	13 %
Total, excluding internal sales		**911**	948	(4) %

Underlying EBIT for the year 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 [2)]. The lower all-in metal price during 2016 negatively affected the Neuss smelter result.

Rolled Products made progress on the "Better Rolled Products" improvement program in 2016, however 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.

Energy

Operational and financial information	Year 2016	Year 2015	% change prior year
Earnings before financial items and tax (EBIT) (NOK million)	**1 343**	1 103	22 %
Underlying EBIT (NOK million)	**1 343**	1 105	21 %
Underlying EBITDA (NOK million)	**1 553**	1 300	19 %
Direct production costs (NOK million)[1)]	**639**	610	5 %
Power production (GWh)	**11 332**	10 894	4 %
External power sourcing (GWh)	**8 935**	8 918	-
Internal contract sales (GWh)	**13 435**	13 731	(2) %
External contract sales (GWh)	**769**	1 093	(30) %
Net spot sales (GWh)	**6 063**	4 989	22 %

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

Underlying EBIT for 2016 increased compared to the previous year mainly due to higher power prices and net spot sales. The increase in net spot sales is due to production and changes in the contract portfolio.

Other and eliminations

Financial information NOK million	Year 2016	Year 2015	% change prior year
Earnings before financial items and tax (EBIT)	**605**	(48)	>100 %
Sapa (50%)[1)]	**777**	454	71 %
Other	**(458)**	(531)	14 %
Eliminations	**61**	58	5 %
Underlying EBIT Other and eliminations	**380**	(19)	>100 %

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

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

Operational and financial information Sapa (50%)	Year 2016	Year 2015	% change prior year
Revenue (NOK million)	**26 663**	27 626	(3) %
Underlying EBIT (NOK million)	**1 099**	704	56 %
Underlying EBITDA (NOK million)	**1 749**	1 364	28 %
Net income (loss) (NOK million)	**889**	123	>100 %
Underlying Net income (loss) (NOK million)	**777**	454	71 %
Sales volumes (kmt)	**682**	682	-

Underlying EBIT for 2016 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.

Net interest bearing debt at the end of 2016 amounted to roughly NOK 0.1 billion, down from about NOK 1.8 billion at the end of 2015.

Financial income (expense), net

Financial income (expense)			% change
	Year	Year	prior
NOK million	**2016**	2015	year
Interest income	**468**	279	68 %
Dividends received and net gain (loss) on securities	**105**	18	>100%
Financial income	**574**	297	93 %
Interest expense	**(362)**	(337)	(7)%
Capitalized interest	**97**	34	>100%
Net foreign exchange gain (loss)	**2 266**	(4 397)	>100%
Net interest on pension liability	**(210)**	(215)	2 %
Other	**(240)**	(215)	(12)%
Financial expense	**1 552**	(5 130)	>100%
Financial income (expense), net	**2 126**	(4 834)	>100%

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 reflect a weakening of USD versus BRL and weakening of Euro versus NOK during the year.

Income tax expense

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 sur tax, 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 and capital resources

The table below includes information on Hydro's liquidity, debt, investments and financial position and performance for the years indicated. See note 38 to the consolidated financial statements for more information on Hydro's capital management practices. See the shareholder information section of this report for more information on Hydro's dividend policy, share buybacks and funding and credit rating.

Liquidity and financial position NOK million, except ratios and RoaCE	**Year 2016**	Year 2015
Net cash provided by continuing operating activities	**10 018**	14 373
Cash and cash equivalents	**8 037**	6 917
Short-term investments[1]	**4 611**	5 752
Liquid assets	**12 648**	12 669
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
Adjusted net cash (debt)[2]	**(5 598)**	(8 173)
Adjusted net cash (debt) incl. EAI[2]	**(12 485)**	(16 184)
Adjusted net cash (debt) incl. EAI / Equity[3]	**0.14**	0.20
Investments[4]	**9 137**	5 865
Capital employed	**81 670**	74 190
Return on average capital employed (RoaCE)[5]	**6.5 %**	7.5 %
Funds from operations / Adjusted net cash (debt)[6]	**0.95**	0.84

1) Hydro's policy is that the maximum maturity for cash deposits is 12 months. Cash flows relating to bank time deposits with original maturities beyond three months are classified as investing activities and included in short-term investments on the balance sheet. See note 24 to the consolidated financial statements for more information on short-term investments.
2) See note 38 to the consolidated financial statements for more information on Adjusted net cash (debt) and equity.
3) Adjusted net cash (debt) to equity ratio and other financial metrics included in this report are calculated including net debt per individual equity accounted investment.
4) APMs are described in the corresponding section in the back of the Board of Director's report.
5) Based on reported EBIT after tax
6) The full calculations of Funds from operations and Adjusted net cash (debt) are presented in note 38. The Funds from operations 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.

Cash flow and Liquidity

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 amounting to NOK 6.0 billion, excluding purchases and proceeds from sales of short-term investments, 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. See note 38 for information on Hydro's capital management measures.

Norsk Hydro ASA has a USD 1.7 billion revolving multi-currency credit facility with a syndicate of international banks, maturing in November 2020. 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.

Contractual obligations, commitments and off-balance sheet arrangements

A summary of Hydro's total contractual obligations and commercial commitments to make future payments is presented below. For further information, see notes 21 Operating leases, 33 Short and long-term debt, 34 Provisions and 40 Contractual commitments and other commitments for future investments to Hydro's consolidated financial statements.

		Payments due by period			
Amounts in NOK million	**Total**	Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term debt including interest	**4 973**	656	2 483	505	1 329
Operating lease obligations	**766**	144	228	141	253
Unconditional purchase obligations [1)]	**137 433**	20 054	30 882	22 035	64 462
Contractual commitments for PP&E	**4 548**	3 867	681	-	-
Short-term and long-term provisions [2)]	**5 801**	1 417	1 448	717	2 219
Total contractual and non-contractual obligations	**153 520**	26 138	35 722	23 398	68 263

1) Unconditional purchase obligations exclude long-term contracts with part owned entities.

2) Short-term and long-term provisions includes certain accruals and provisions which are non-contractual, but related to liabilities or obligations that are measurable and expected to occur in future periods.

Employee retirement plans

Hydro's employee retirement plans consist of defined benefit and defined contribution pension plans. As of December 31, 2016, the defined benefit obligation associated with Hydro's defined benefit plans was NOK 20.9 billion. The fair value of pension plan assets was NOK 12.7 billion, resulting in a net unfunded obligation relating to the plans of NOK 8.2 billion. In addition, termination benefit obligations and other pension liabilities amounted to NOK 0.5 billion, resulting in a total net unfunded pension liability of NOK 8.7 billion. Hydro's pension expense for 2016 amounted to NOK 0.6 billion. Cash outflows from operating activities in 2016 regarding pensions amounted to approximately NOK 0.8 billion. See note 36 Employee retirement plans in the consolidated financial statements for more information on Hydro's employee retirement plans.

Non-controlling interest and shareholders' equity

Non-controlling interest was NOK 5,733 million as of December 31, 2016, compared with NOK 5,159 million as of December 31, 2015. Shareholders' equity amounted to NOK 87,640 million at the end of 2016, compared with NOK 79,329 million at the end of 2015. The main items impacting shareholders' equity in 2016 and 2015 included net income, currency translation adjustments and dividends declared and paid. See the consolidated statements of changes in equity and note 37 Shareholders' equity to Hydro's consolidated financial statements for a detailed reconciliation of shareholders' equity.

Investments

Investments in 2016 amounted to NOK 9,137 million, compared with NOK 5,865 million in 2015.

Investments[1)]

Amounts in NOK million	**Year 2016**	Year 2015	% change prior year
Bauxite & Alumina	**3 544**	1 923	84 %
Primary Metal	**3 396**	1 839	85 %
Metal Markets	**101**	280	(64) %
Rolled Products	**1 615**	1 434	13 %
Energy	**318**	290	10 %
Other and eliminations	**162**	99	64 %
Total	**9 137**	5 865	56 %

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

In 2016, Hydro continued to focus on securing its liquidity position. Investments include maintenance activities to safeguard our production assets. A summary of the significant investments that were made in addition to maintenance activities for both 2016 and 2015 is included below.

Investments in Bauxite & Alumina in 2015 and 2016 included amounts relating to an expansion and modernization of the bauxite residue (red mud) deposit area at Alunorte. Investments in 2016 also included amounts related to a new residue deposit area (tailing dam) at Paragominas. The Alunorte and Paragominas projects are expected to be finalized in 2017. The total amount for Bauxite & Alumina in 2016 includes NOK 370 million for a vessel leasing at Alunorte and NOK 728 million for ARO adjustments at both plants.

Investments for Primary Metal in 2016 were mainly the capitalization of costs related to the Karmøy technology plant. Investments also included amounts related to the normal cyclical increase in the relining of smelter cells which is done every 4-7 years for established smelters.

In Metal Markets, investments in 2016 included amounts relating to the further development of our remelters in Europe and the U.S.

Investments for Rolled Products in 2016 included the new recycling line for used beverage cans at our smelter in Neuss, Germany and the new production line in Grevenbroich for aluminium car body sheet. Investments for Rolled Products in 2015 included expenditures for the same projects.

In 2016 investments for Energy included completion of small hydropower plants Mannsberg and Midtlæger, as well as ongoing upgrade projects for the Vigeland dam and Suldal I power station. In 2015 investments for Energy included completion of the major upgrade project at Rjukan in Telemark as well as small hydropower plants Mannsberg and Midtlæger.

Return on Capital Employed (RoaCE)

Hydro uses (underlying) RoaCE to measure the performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views this measure as providing additional understanding of the rate of return on investments over time in each of its capital intensive businesses, and in the operating results of its business segments.

	Reported		Underlying	
Return on average Capital Employed (RoaCE)	**2016**	2015	**2016**	2015
Hydro	**6.5 %**	7.5 %	**5.1 %**	9.2 %
Business areas[1)]				
Bauxite & Alumina	**2.7 %**	5.3 %	**2.8 %**	5.3 %
Primary Metal	**5.2 %**	10.7 %	**5.2 %**	11.0 %
Metal Markets	**19.6 %**	5.4 %	**15.9 %**	11.4 %
Rolled Products	**6.2 %**	1.1 %	**4.6 %**	7.8 %
Energy	**18.1 %**	17.2 %	**18.1 %**	17.3 %

1) RoaCE at business area level is calculated using 30% tax rate. For Energy, 60% tax rate is used (55% in 2015).

For more information; see the Alternative Performance Measures (APMs) section.

Notes and references

1) The all-in metal price refers to the LME aluminium price plus premiums.
2) Slim rolling mill divestment was completed by December 17, 2015.
3) Normal based on long term historical averages.
4) Prices are fixed mainly one month prior to production. As a result, and due to the hedging of product inventories, Hydro's realized aluminium prices lag LME spot prices by around 1.5 to 2 months.

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04: Shareholder information

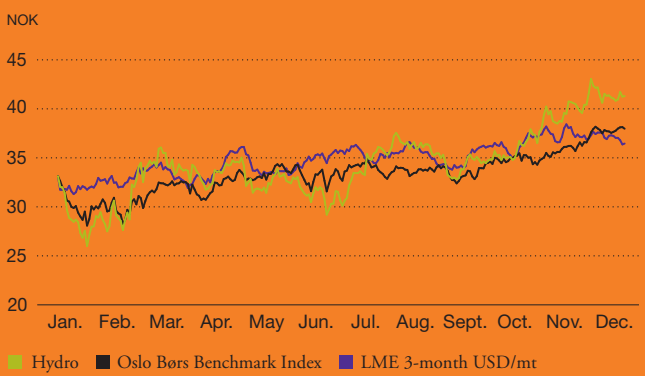
QUICK OVERVIEW

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. 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.

There were 2,042,894,116 outstanding shares at the end of 2016. A total of 1.7 billion Hydro shares were traded on the Oslo Stock Exchange during 2016, representing 7.2 percent of the total turnover on the exchange in terms of share value.

Hydro's shares are, in addition to the Oslo Stock Exchange, also listed in London while our American Depositary Shares (ADSs) trade on OTCQX International in the US, the premium over-the-counter market tier.

Share price development in 2016



Introduction

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. 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.

There were 2,042,894,116 outstanding shares at the end of 2016. A total of 1.7 billion Hydro shares were traded on the Oslo Stock Exchange during 2016, representing 7.2 percent of the total turnover on the exchange in terms of share value.

Hydro's shares are, in addition to the Oslo Stock Exchange, also listed in London while our American Depositary Shares (ADSs) trade on OTCQX International in the US, the premium over-the-counter market tier.

Dividend policy

Long-term return to shareholders should reflect the financial value created by Hydro over time. Total shareholder return consists of dividends and share price development. Over time, value creation should be reflected to a greater extent by share price development than through dividends. Hydro's 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. In setting the dividend for a specific year, Hydro will take into consideration expected earnings, future investment opportunities, the outlook for world commodity markets and our financial position. Share buybacks or extraordinary dividends will supplement ordinary dividends during periods of strong financials, due consideration being given to the commodity cycle and capital requirements for future growth. The total payout should reflect Hydro's aim to provide its shareholders with competitive returns benchmarked against alternative investments in comparable companies.

Hydro's Board of Directors normally proposes a dividend per share in connection with the publication of our fourth quarter results. The Annual General Meeting then considers this proposal in May each year, and the approved dividend is subsequently paid to shareholders in May or June. Hydro pays dividends once each year. For non-Norwegian shareholders, Norwegian tax will be deducted at source in accordance with the current regulations.

Buyback of shares

In periods when earnings are high, Hydro may consider buying back shares in addition to ordinary or extraordinary dividend payments. This consideration will be made in the light of alternative investment opportunities and our financial situation. In circumstances when buying back shares is relevant, our Board of Directors proposes buyback authorizations to be considered and approved by the Annual General Meeting. Authorizations are granted for a specific time period and for a specific share price interval during which share buybacks can be made.

Funding and credit quality

Maintaining a strong financial position and an investment grade credit rating are viewed as important risk mitigating factors, supporting Hydro's possibilities for strategic development of its businesses. Access to external financial resources is required in order to maximize value creation over time, balanced with acceptable risk exposure. To secure access to debt capital on attractive terms, we aim at maintaining an investment grade credit rating from the leading rating agencies.

Contributing toward this ambition to retain our credit rating, we intend to keep our funds from operations at a level no less than 40 percent of adjusted net debt, in addition to adjusted net debt at a ratio not higher than 55 percent to equity capital over time. In calculating these ratios, we include pension obligations, operating lease commitments, share of net debt in equity accounted investments and certain other debt-like items. For a discussion of these adjustments see Note 38 - Capital Management in the Financial Statements section of this report.

Major shareholders and voting rights

As of December 31, 2016, Hydro had 45,696 registered shareholders as per the Norwegian Central Securities Depository (VPS). The Ministry of Trade, Industry and Fisheries of Norway was the largest of these with a shareholding of 34.26 percent of the total number of ordinary shares authorized and issued, and 34.70 percent of the total shares outstanding. As of the same date, The Government Pension Fund - Norway (Folketrygdfondet)

Hydro's 20 largest shareholders, December 31, 2016

Shareholder	Number of shares	Ownership interest
Ministry of Trade, Industry and Fisheries	708 865 253	34.3%
Folketrygdfondet	126 362 900	6.1%
JPMorgan Asset Management U.K. Limited	59 442 286	2.9%
Schroder Investment Management Ltd. (SIM)	48 676 522	2.4%
Silchester International Investors, L.L.P.	41 652 935	2.0%
BlackRock Institutional Trust Company, N.A.	40 974 978	2.0%
Acadian Asset Management LLC	37 759 600	1.8%
The Vanguard Group, Inc.	29 378 395	1.4%
KLP Forsikring	27 149 476	1.3%
SAFE Investment Company Limited	25 657 337	1.2%
Storebrand Kapitalforvaltning AS	22 922 641	1.1%
INVESCO Asset Management Deutschland GmbH	22 698 503	1.1%
J O Hambro Capital Management Limited	21 290 551	1.0%
Alliance Trust Plc.	20 247 216	1.0%
State Street Global Advisors (US)	19 740 335	1.0%
JP Morgan Asset Management	17 961 899	0.9%
EARNEST Partners, LLC	17 248 251	0.8%
DNB Asset Management AS	15 486 101	0.7%
Investec Asset Management Ltd.	15 049 914	0.7%
Orbis Investment Management Ltd.	13 715 776	0.7%

Source: The data is provided by Nasdaq through the Share register Analyses services. The data is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Hydro share register. Whilst every reasonable effort is made to verify all data, Nasdaq can not guarantee the accuracy of the analysis. For a list of the largest shareholders as of December 31, 2016, from the Norwegian Central Securities Depositary (VPS), see Note 13 in Notes to the financial statements Norsk Hydro ASA. Due to lending of shares, an investor's holdings registered in its VPS account may vary.

owned 6.1 percent of the total number of ordinary shares issued and 6.2 percent of the total shares outstanding. There are no different voting rights associated with the ordinary shares held by the state.

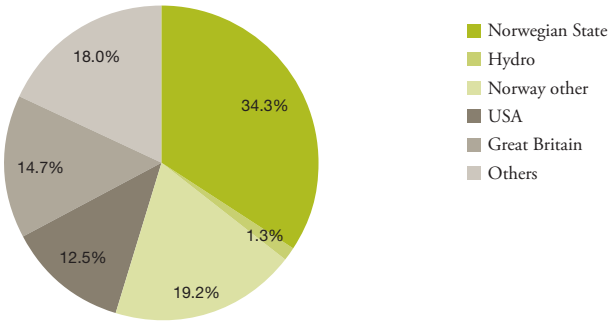
The Norwegian Ministry of Trade, Industry and Fisheries represents the Norwegian government in exercising the state's voting rights. The state has never taken an active role in the day-to-day management of Hydro and has for several decades not disposed of any of the ordinary shares owned by it, except when participating in the share buyback programs.

JPMorgan Chase & Co, as depositary of the ADSs, through its nominee company, Morgan Guaranty Trust Company, held interests in 12,245,661 ordinary shares, or 0.6 percent of the outstanding ordinary shares as of December 31, 2016. The interests are on behalf of 335 registered holders of ADSs.

All shares carry one vote. It is, however, a requirement of Norwegian legislation that a shareholder can only vote and have preferential subscription rights for shares registered in their name. Shares registered with a nominee account must be re-registered in the Norwegian Central Securities Depositary, *Verdipapirsentralen* (VPS), before the Annual General Meeting in order to obtain voting rights. This requirement also applies to our US-traded ADSs.

Hydro cannot guarantee that beneficial shareholders will receive the notice for a general meeting in time to instruct their nominees to affect a re-registration of their shares. Hydro is organized under the laws of the Kingdom of Norway. It may be difficult for investors to effect service of process outside Norway upon Hydro or its directors and executive officers, or to enforce against Hydro or its directors and executive officers judgments obtained in other jurisdictions. Norwegian courts are unlikely to apply other than Norwegian law when deciding on civil liability claims under securities laws.

Geographical ownership distribution of shares



Source: Norwegian Central Securities Depository (VPS)

Key figures for the Hydro share

	2016	2015	2014	2013 [1]	2012 [2]
Share price high, Oslo (NOK)	**43.05**	47.68	42.90	29.09	34.24
Share price low, Oslo (NOK)	**26.00**	26.54	26.87	23.86	23.40
Share price average, Oslo (NOK)	**34.31**	35.58	34.03	25.89	27.84
Share price year-end, Oslo (NOK)	**41.30**	33.13	42.44	27.07	27.88
Earnings per share (EPS) (NOK)	**3.13**	0.99	0.39	(0.45)	(0.65)
EPS from continuing operations (NOK) [3]	**3.13**	0.99	0.39	(0.54)	(0.39)
Dividend per share (NOK) [4]	**1.25**	1.00	1.00	0.75	0.75
Pay-out ratio [5]	**40%**	101%	256%	-	-
Dividend growth	**25%**	0%	33%	0%	0%
Pay-out ratio five year average [6]	**133%**	110%	95%	86%	176%
Adjusted debt/equity ratio [7]	**0.14**	0.20	0.26	0.22	0.19
Credit rating, Standard & Poor's	**BBB**	BBB	BBB	BBB	BBB
Credit rating, Moody's	**Baa2**	Baa2	Baa2	Baa2	Baa2
Non-Norwegian ownership, year-end	**45%**	40%	35%	33%	42%
Outstanding shares, average	**2 042 481 930**	2 041 000 645	2 039 501 461	2 038 416 268	2 037 199 618
Outstanding shares, year-end	**2 042 894 116**	2 041 587 692	2 039 832 288	2 038 789 033	2 037 568 162

1) Figures for 2013 have been adjusted reflecting IFRS 11
2) Figures for 2012 have been adjusted reflecting IAS 19R
3) Extruded Products is included as discontinued operations from January 1, 2012 to August 31, 2013
4) 2016 dividend per share proposed by Board of Directors, dependent on approval from the Annual General Meeting May 3, 2017.
5) Dividend per share divided by earnings per share from continuing operations.
6) Dividend per share divided by earnings per share from continuing operations for last five years.
7) See note 38-Capital management in the Consolidated Financial Statements.

Information from Hydro

Hydro gives a high priority to communicating with the stock market, and aims to maintain an open dialogue with market participants. Our objective is to provide sufficient information on a timely basis to all market participants to ensure a fair valuation of our shares. Information that is considered price sensitive is communicated by news releases and stock exchange announcements. We host regular meetings for investors in Europe and the US. The major brokers in Oslo and London publish equity research reports on Hydro. All information about Hydro is published on our website: www.hydro.com

Our annual and quarterly reports are available on www.hydro.com, and our latest annual reports can also be ordered in printed versions from the website.

Two weeks before the announcement of quarterly results, Hydro practices a "silent period", meaning that contact with external analysts, investors and journalists is limited. This is done to minimize the risk of information leaks and potentially unequal information in the marketplace.

Annual General Meeting

The Annual General Meeting will be held at the company's offices at Drammensveien 260, Oslo, Norway, on 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.

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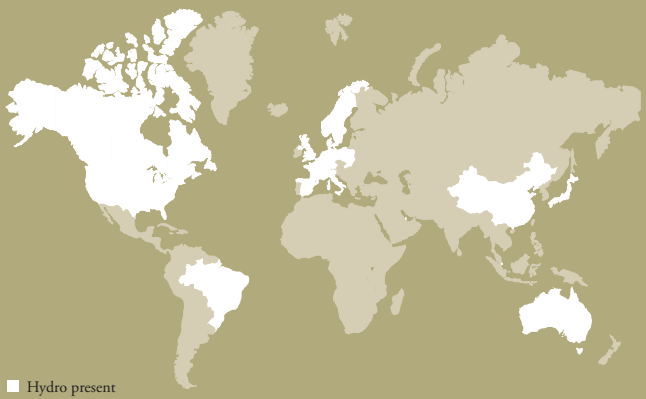
05: *Corporate governance*

QUICK OVERVIEW

Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our corporate governance has been designed to provide a foundation for value creation and to ensure good control mechanisms. We maintain common requirements in the form of corporate directives that are mandatory for all parts of our organization.

Our corporate directives help ensure that all our employees carry out their activities in an ethical manner and in accordance with current legislation and Hydro standards. The board of directors has approved our Code of Conduct, which applies to all employees throughout the world, as well as to board members of Hydro and its subsidiaries. The code addresses compliance with laws and other matters such as handling of conflicts of interest and a commitment to equal opportunities for all employees. Our integrity program contributes to compliance with anti-corruption legislation and basic human rights.

Hydro follows the Norwegian code of practice for corporate governance of October 2014.



Based in Norway, Hydro has 13,000 employees involved in activities in more than 40 countries on all continents.

Introduction

Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our main share listing is on Oslo Børs, which subjects us to Norwegian securities legislation and stock exchange regulations. Hydro has a secondary listing on London Stock Exchange. In the United States the shares are traded on OTCQX International, the premium over-the-counter market tier, in the form of American Depositary Receipts evidencing American Depositary Shares, which carry the same shareholder rights as ordinary shares.

We have developed our governance structure through cooperation between our corporate management board and our superior governance bodies to secure compliance with relevant laws and regulations, Hydro´s steering documents and to reflect business needs. Further development is a continuous process.

We follow the Norwegian Code of Practice for Corporate Governance of October 2014. A detailed description of our compliance - including deviations - is presented in the Board of Directors' report. Information regarding our shareholder policy can be found in the section Shareholder information in this report.

Hydro's strategic direction is described the Board of Directors' report. More comprehensive information about our governance practices, policies and requirements can be found at www.hydro.com/governance

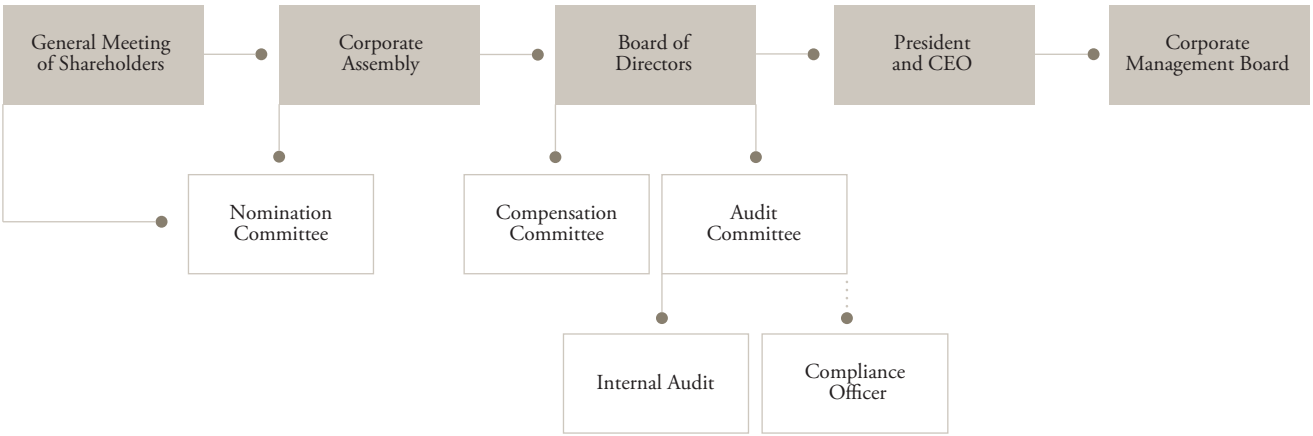
Global directives and Code of Conduct

The Hydro Way represents our framework for leadership, organization and culture and is the foundation of our governance system. See page 103 for further information.

Our system is based on the delegation of responsibility to our business areas and to corporate functions whose duties include finance, tax and accounting, HSE, CSR, legal and compliance. In order to maintain uniformly high standards, we set common requirements in the form of constituting documents and global directives. Constituting documents are approved by Hydro's board of directors, the corporate assembly or the general meeting of shareholders, while global directives are approved by the President and CEO. These documents address a number of areas, including health, security, safety and environment (HSE), ethics and social responsibility, strategy and business planning, finance, risk management, and organizational and employee development. This information is made available to all employees. For legal entities where Hydro holds less than 100 percent of the voting rights, Hydro's representatives in the boards of directors shall act in compliance with Hydro's Code of Conduct and endeavor to implement the principles as laid down therein.

Hydro's Code of Conduct is a constituting document and applies to all Hydro employees throughout the world, as well as to board members of Hydro and its subsidiaries. See page 103 for more information about Hydro's Code of Conduct, whistleblowing procedure and integrity program, and www.hydro.com/principles for more information regarding our corporate directives.

Governance bodies in Hydro



In Hydro, compliance is defined as adherence to applicable laws and regulations as well as Hydro's steering documents. Guidelines have been established to assist line management to adhere to Hydro's compliance requirements. Special emphasis is made on reducing the risk of non-compliance within finance, anti-corruption, competition, and health, security, safety and environment.

Business planning and risk management

Hydro's overall goal is to create shareholder value through satisfied customers and motivated and competent employees. We have defined two main processes to ensure that short and long-term targets are achieved.

The portfolio, strategy and business planning process involves strategic and operative planning and results monitoring. The planning, which reflects our ambitions and values, is the basis for the strategies and measures that form the business plans at all levels of our organization. We have defined key performance indicators for each unit, including financial, human resource, ethical and HSE objectives, in addition to unit-specific operating targets.

Hydro's people performance and development process, My Way, is designed to assess and develop our human resources, and includes appraisal dialogue, individual development and follow-up, as well as talent planning and succession management. Its aim is to promote the potential of individual employees and of our organization as a whole and is integrated with our annual business planning process.

Risk management is also an integrated part of our planning and reporting process. Risk management deals with all aspects of value creation, including strategy, finance, commercial matters, organization, HSE, reputation, corporate responsibility, regulatory and legal matters. Hydro's board of directors regularly reviews and evaluates the overall risk management systems and environment within Hydro. We carry out risk assessments for defined exposure areas. Exposure to certain risks, particularly those threatening life and health, has been consistently reduced to very low levels. See also the Board of Directors' report for a more detailed discussion of Hydro's risk management.

Controls and procedures

Hydro's Internal Control over Financial Reporting (ICFR) framework is primarily designed to provide reasonable assurance to our management and the board of directors regarding the preparation and fair presentation of our Financial Statements.

We established our comprehensive ICFR framework in 2006 and continue to maintain it based on the principles established by "The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control - integrated framework." The five interrelated COSO principles are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Our overall control environment relevant for financial reporting is covered by Hydro-Wide Controls (HWC). HWC reflects the tone set by the common attitudes, ethics, and values, and competence of top management and management, and all the rest of our employees.

Our ICFR model is implemented through a top-down and risk-based approach, which takes Hydro's main financial reporting risks as a starting point.

In addition, a standard and minimum level of controls is required for all reporting units, documented in an internal control handbook.

Hydro's disclosure committee assist the CEO and the CFO in ensuring fairness, accuracy, completeness and timeliness of Hydro's public reports and disclosures, both financial and extra-financial. The disclosure committee is also an integral component of Hydro's disclosure controls and procedures and assesses Hydro's compliance initiatives pertaining to ICFR. The disclosure committee reports quarterly a summary of its activities to the board audit committee.

Hydro's portfolio, strategy and business planning process

Through reporting from the disclosure committee and internal audit, the audit committee takes an active role in ensuring the functioning of the ICFR framework. See page 187 and www.hydro.com/governance for additional details.

Pre-approval of audit services

The audit committee has a pre-approval policy governing the engagement of Hydro's primary external auditor to provide audit and non-audit services to Hydro or any entity within the group. Under this pre-approval policy, the audit committee has defined and pre-approved subcategories of audit and non-audit services. The audit committee's pre-approval policy includes annual monetary frames for each of the following categories of services:

- Audit-related
- Tax
- Other - not related to financial audit and tax

Within the scope of the pre-approval policy, all services have been pre-approved and all amounts for audit-related, tax and other non-audit related services are within the monetary frames established by the audit committee.

Transparency and communication

Hydro's corporate culture embodies the principles of transparency and respect for others. Our ability to operate efficiently in the Norwegian market and internationally requires consistent and professional communication. We adhere, therefore, to the principles of transparency, honesty and accountability when interacting with our stakeholders.

Management compensation

Information concerning remuneration and remuneration policies, share ownership, loans outstanding and loan policy relating to Hydro's board of directors and corporate management board is disclosed in note 8-10 of the consolidated financial statements.

Board of directors

Dag Mejdell, chairperson
- Position: Non-executive Director
- Education: Degree in Economics and Business Administration (siviløkonom) from the Norwegian School of Economics (NHH)
- Current directorships: Chair of International Post Corporation, Chair of Sparebank 1 SR Bank ASA, NSB AS, deputy chair of SAS AB and board member in Telecomputing AS.

Irene Rummelhoff, deputy chairperson
- Position: Executive Vice President, New Energy Solutions in Statoil
- Education: Master of Science in Geology/Geophysics (sivilingeniør) from the Norwegian Institute of Technology (NTH)
- Current directorships: None

Ove Ellefsen, employee representative
- Position: Project Supervisor / full-time union official representing the Central Cooperative Council (Sentralt Samarbeidsråd)
- Education: Certificate of apprenticeship in electrochemistry. Work supervisor training
- Current directorships: None

Billy Fredagsvik, employee representative
- Position: Process operator / full-time union official. Represents the Norwegian Confederation of Trade Unions (LO)
- Education: Trade school (mechanics)
- Current directorships: None

Finn Jebsen
- Position: Independent businessman
- Education: Degree in Economics and Business Administration (siviløkonom) from the Norwegian School of Economics (NHH). Master's degree in Business Administration from the University of California, Los Angeles.
- Current directorships: Chairperson of Kongsberg Gruppen ASA and Kavli Holding AS. Board member of A. Wilhelmsen AS, Norfund, Future Technology AS and his wholly-owned company Fateburet AS.

Name	Place of residence	Year of birth	Position	Board committee	Meetings attended	No. of Hydro shares [1]	Director since	Term expires
Dag Mejdell	Oslo, Norway	1957	Chairperson	Chairperson Compensation committee	11	35 000	2012	2018
Inge K. Hansen [2]	Oslo, Norway	1947	Deputy Chairperson [2]	Chairperson Audit committee [2]	5	-	2008	2016
Irene Rummelhoff [2]	Hafrsfjord, Norway	1967	Deputy Chairperson [2]	Compensation committee	10	5 000	2014	2018
Ove Ellefsen	Håvik, Norway	1956	Director	Audit committee	11	8 461	2011	2017
Billy Fredagsvik	Høyanger, Norway	1956	Director		11	4 076	2007	2017
Finn Jebsen	Oslo, Norway	1950	Director	Chairperson Audit committee	11	53 405 [3]	2007	2018
Sten Roar Martinsen	Kopervik, Norway	1962	Director	Compensation committee	11	5 132	2005	2017
Eva Persson [2]	Västra Frölunda, Sweden	1953	Director	Audit committee[2]	5	-	2010	2016
Pedro José Rodrigues [4]	Rio de Janeiro	1953	Director		7	0	2012	2018
Liv Monica Stubholt	Oslo, Norway	1961	Director	Audit committee	10	0	2010	2018
Marianne Wiinholt [5]	Klampenborg, Denmark	1965	Director		5	0	2016	2018
Thomas Schulz [5]	Rungsted Kyst, Denmark	1965	Director		5	0	2016	2018

Total number of board meetings were 11. Rodrigues abstained himself from discussions related to Vale due to his relationship with the company.

1) As per 2016-12-31
2) Hansen and Persson stepped down from the board as of 2016-05-26. Hansen was deputy chairperson until the same date, when he was succeeded by Rummelhoff
3) Including shares owned by Fateburet AS
4) Rodrigues resigned from the board of directors effective of 2017-01-01
5) Wiinholt and Schulz became members of the board as of 2016-05-26

Sten Roar Martinsen, employee representative

- Position: Process operator / full-time union official representing the Norwegian Confederation of Trade Unions (LO)
- Education: Certificate of apprenticeship in electrochemistry. Work supervisor training
- Current directorships: None

Liv Monica Stubholt

- Position: Partner, Advokatfirmaet Selmer DA
- Education: Candidate in Jurisprudence (cand. jur.) University of Oslo
- Current directorships: Chair of the board of the Russian-Norwegian Chamber of Commerce, Varanger Kraft AS. Board member of the German-Norwegian Chamber of Commerce. Non-executive board positions in Solveig Gas AS, Broadnet AS, Rosneft Nordic Oil AS and VNG Norge AS.

Marianne Wiinholt

- Position: Executive Vice President and Chief Financial Officer, Dong Energy A/S
- Education: State Authorised public Accountant
- Current directorships: Board Member and Chair of the Audit committeee of J. Lauritzen A/S

Thomas Schulz

- Position: Group Chief Executive Officer, FL Smidth
- Education: PhD Mining & Mineral Processing, Rheinisch-Westfälische Universität Aachen RWTH, Germany
- Current directorships: None

Number of Hydro shares is as per 31 December 2016.

Corporate Management Board

Name	Place of Residence	Year of birth	Employed in Hydro since	Current position since	Position	Number of Hydro shares [1]
Svein Richard Brandtzæg	Oslo, Norway	1957	1985	2009	President and Chief Executive Officer	210 613
Kjetil Ebbesberg [2]	Düsseldorf, Germany	1971	2009	2015	EVP Rolled Products	38 631
Eivind Kallevik	Oslo, Norway	1967	1998	2013	EVP and Chief Financial Officer	41 802
Anne-Lene Midseim	Oslo, Norway	1968	1998	2015	EVP CSR, Compliance and General Counsel	14 139
Arvid Moss	Oslo, Norway	1958	1991	2010	EVP Energy and Corporate Business Development	138 470
Silvio Porto	Belém, Brazil	1960	2014	2016	EVP Bauxite & Alumina	
Inger Sethov	Høvik, Norway	1970	2005	2015	EVP Communication & Public Affairs	12 661
Hanne Simensen	Oslo, Norway	1967	1994	2015	EVP People & HSE	12 564
Hilde Merete Aasheim [3]	Oslo, Norway	1958	2008	2008	EVP Primary Metal	72 943

EVP: Executive vice president

1) As per 2016-12-31
2) Ebbesberg also was employed in Hydro 1996-2007
3) Aasheim also was employed in Hydro 2005-2007

Svein Richard Brandtzæg, President and CEO

- Key experience: Executive vice president and head of Aluminium Products. Head of Rolled Products. Head of Metal Products. Head of Magnesium
- Education: PhD, Norwegian Institute of Technology. Degree from the Norwegian School of Management
- External directorships: Chairperson of the Norwegian University of Science and Technology (NTNU)

Kjetil Ebbesberg

- Key experience: EVP Metal Markets, Head of BU Foundry alloys, CFO for Metal Products, Managing director and Plant manager at Holmestrand rolling mill and CFO for the Norwegian retail group Coop
- Education: Master of Science in Business from Norwegian School of Economics and Business Administration (NHH)
- External directorships: Chair of the board of European Aluminium (EA), vice chair of the board of Gesamtverband der Aluminiumindustrie (GDA), member of the Management Committee of Eurometaux, WirtchaftVereinigung Metalle (WVM), and German-Norwegian Chamber of Commerce.

Eivind Kallevik, CFO

- Key experience: Head of Finance Bauxite and Alumina. Responsible for integration planning of all functional areas in the Vale deal. Head of Corporate Financial Reporting, Performance and Tax. Head of Finance Aluminium Products. Head of Business Controlling Hydro Aluminium. Responsible for Trade Finance & Cash Management in Norsk Hydro ASA. Prior to Hydro, 6 years of Oil and Gas Financing in Christiania Bank og Kreditkasse
- Education: Master of Business Administration from University of San Francisco
- External directorship: Board member in Sapa AS

Anne-Lene Midseim

- Key experience: Company Secretary; Head of Staffs in Bauxite & Alumina; Head of Corporate Social Responsibility; and Legal Counsel in Hydro. Resident Legal Advisor in East-Timor , Oil for development program, Lawyer for Norwegian Law firm Vogt & co, Executive Officer in the Ministry of Oil and Energy
- Education: Candidate in Jurisprudence (cand. jur.) University of Oslo
- External directorships: Member of the board of Sapa AS and member of the Nomination Committee of Transparency International Norge

Arvid Moss

- Key experience: Executive vice president and head of Corporate Strategy and Business Development. Project leader for the oil and gas merger agreement with Statoil. Head of Metal Products. Head of Automotive Structures
- Education: Degree in Economics and Business Administration (siviløkonom) from the Norwegian School of Economics (NHH)
- External directorships: None

Silvio Porto

- Key experience: Executive Vice President of Bauxite & Alumina. More than 30 years of experience in aluminium business on metal, bauxite and alumina refinery having several leadership positions in Brazil, Norway, Jamaica, Australia and Saudi Arabia.
- Education: Chemical Engineer from Federal University of Para and Business Administration from Don Cabral University
- External directorships: Brazilian Aluminium Association (ABAL) Chairman Board

Inger Sethov

- Key experience: Head of Communication & Public Affairs in Hydro. Head of Media Relations in Hydro. 10 years of experience as journalist and correspondent for Reuters and Dow Jones news agencies
- Education: BA Mass Communication & Journalism, California State University Fresno
- External directorships: None

Hanne Simensen

- Key experience: Head of Energy Markets. Head of HR Energy. Head of Trading Energy. Head of LPG Shipping and Trading. 3 years experience from Rolled Products
- Education: Master of Management from BI
- External directorships: None

Hilde Merete Aasheim

- Key experience: Head of Staff Functions and Corporate Services in StatoilHydro. Head of the integration between Statoil and Hydro's oil and gas activities. Head of Leadership and Culture in Hydro. 20 years of service in Elkem, three last years as head of the Silicon Division
- Education: Degree in Economics and Business Administration (siviløkonom) from the Norwegian School of Economics (NHH). Certified public accountant from NHH
- External directorships: Chairperson of the board of directors of Norsk Industri

Governance bodies

Description	Developments and events during the reporting year	References
General meeting of shareholders Company shareholders exercise ultimate authority through the general meeting. Shareholders registered in VPS, the Norwegian Central Securities Depository, five working days in advance of the general meeting of shareholders can vote in person or by proxy. Invitations are sent to shareholders or to the shareholder's security deposit bank. The general meeting of shareholders: • Elects the shareholders' representatives to the corporate assembly • Determines the remuneration of the corporate assembly • Elects the external auditor and approves the auditor's remuneration • Approves the statutory report according to Norwegian requirements and financial statements, including the dividend proposed by the board of directors and recommended by the corporate assembly • Elects the nomination committee and determines their remuneration • Deals with any other matters listed in the notice convening the meeting Shareholders may, at least four weeks before an ordinary general meeting, request in writing that proposals for resolutions are submitted to the general meeting, or that items are added to the agenda.	General meeting in May	The protocols can be found at www.hydro.com/governance
Corporate assembly Normally eighteen members. Twelve are elected by the general meeting of shareholders, six are elected by and among the group's employees in Norway. The members are elected for a period of up to two years. In accordance with Norwegian law, the corporate assembly: • Elects the board of directors and determines their remuneration • Nominates the external auditor to be elected by the general meeting of shareholders • Based on recommendations from the board of directors, makes decisions in matters relating to investments that are substantial in relation to Hydro's resources, and when closures and reorganizations will lead to significant changes for the workforce • Provides recommendations to the general meeting of shareholders with respect to approval of the board of directors' proposal regarding the financial statements and dividend	Four meetings. 79 percent meeting attendance. *Members:* Terje Venold (chairperson), Susanne Munch Thore (deputy chairperson), Shahzad Abid, Rolf Arnesen, Nils Bastiansen, Anne Kverneland Bogsnes, Anne-Margrethe Firing, Odd Arild Grefstad, Berit Ledel Henriksen, Bjørn Petter Moxnes, Birger Solberg, Unni Steinsmo, Sten-Arthur Sælør, Jorunn Johanne Sætre, Eivind Torvik, Einar Øren, Bente Østlyngen, Bjørn Øvstetun. *Deputy members:* Ylva Lindberg, Hilde C. Bjørnland, Nils Huseby, Svein Kåre Sund, Tone Hjelmtvedt, Leif Sundstrøm, Ørjan Normann, Kolbjørn Havnes, Ann Kristin Prytz, Nancy Jorunn Holt, Per Ivar Kjennerud, Roar Jakobsen, Kari Sommerfeldt.	Note 10 to the consolidated financial statements for remuneration and share ownership Articles of association § § 7-8 at www.hydro.com/governance
Nomination committee Minimum three and maximum four members appointed by the general meeting of shareholders. The chairperson of the committee and at least one of the other members shall be elected among the shareholder-elected corporate assembly members. Nominates candidates to the board of directors, the corporate assembly and the nomination committee, and proposes remuneration to the board, its sub-committees, the corporate assembly and the nomination committee.	15 meetings. 98 percent meeting attendance. *Members:* Terje Venold (chairperson) Susanne Munch Thore Mette Wikborg Berit Ledel Henriksen	Articles of association § 5A and biographical information can be found at www.hydro.com/governance
Board of directors The board of directors currently holds 9 members. Six are elected by the corporate assembly, three elected by and among the company's employees in Norway, for a period of up to two years. In accordance with Norwegian law, the board of directors assumes the overall governance of the company, ensures that appropriate management and control systems are in place and supervises the day-to-day management as carried out by the President and CEO.	11 meetings. 93 percent meeting attendance.	The board's mandate can be found at www.hydro.com/governance Biographical information on the board members on page 182

Description	Developments and events during the reporting year	References
All shareholder-elected members are external. No members elected by employees are part of the company's executive management. Employee directors have no other service contractual agreements with the company outside of their employee contracts, though they are subject to their duties as board members. 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 operational deep-dives into Bauxite & Alumina and Rolled Products. The board of directors visited the Karmøy plant including both smelter and Rolled Products and had a deep-dive into Karmøt 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, which in turn assessed the board's composition and competence. All shareholder-elected members were in 2016 deemed to be independent according to the Norwegian standards. None of the company's non-employee board members had any other service contractual agreements with the company. Stubholt is since 1 September 2015 a partner of Advokatfirmaet Selmer ANS. Selmer invoiced services to Hydro in 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.	Note 10 to the consolidated financial statements for remuneration, share ownership and loans.
Compensation committee Consists of three of the board of directors´ members. The committee reviews the performance of, and puts forward proposals regarding the compensation of the President & CEO to the board of directors. The committee assists in evaluating the compensation of the corporate management board and in determining performance-promoting schemes for management.	Five meetings. 95 percent meeting attendance. *Members:* Dag Mejdell (chairperson) Irene Rummelhoff Sten Roar Martinsen [1] [1] Martinsen is employed in Hydro and represents the employees through the Norwegian Confederation of Trade Unions (LO). We believe that such reliance does not adversely affect, in any material way, the ability of the compensation committee to act independently or to satisfy the other requirements.	The mandate can be found at www.hydro.com/governance
Audit committee Consists of three of the board of directors' members. The audit committee meets Norwegian requirements regarding independence and competence. The primary function of the Audit committee is to assist the Board in exercising its oversight responsibility, with respect to the integrity of the company's financial statements, the company's financial reporting processes and internal controls, the company's risk assessment and risk management policies, the qualifications, independence of the external auditor, the performance of the company's internal audit function, and the company's compliance system. To ensure the independence of the internal audit function, the head of Internal Audit reports functionally to the board through the audit committee. The head of Corporate Compliance has a dotted reporting line to, and meets regularly, with the audit committee. The audit committee maintains a pre-approval policy governing the engagement of the company's primary and other external auditors to ensure auditor independence.	Six meetings. 94 percent meeting attendance. For self-assessment, see information on the Board of directors above. *Members:* Finn Jebsen (chairperson) Liv Monica Stubholt Ove Ellefsen [2] [2] Ellefsen is employed in Hydro and represents the employees through the Central Cooperative Council (Sentralt Samarbeidsråd). We believe that such reliance does not adversely affect, in any material way, the ability of the audit committee to act independently or to satisfy the other requirements.	The mandate can be found at www.hydro.com/governance Pre-approval of audit services on page 182
President & CEO and corporate management board According to Norwegian corporate law, the President & CEO constitutes a formal governing body that is responsible for the daily management of the company. The division of functions and responsibilities between the President & CEO and the board of directors is defined in greater detail in the rules of procedures established by the board. The Corporate Management Board (CMB), including the President & CEO, has a shared responsibility for promoting Hydro's objectives and securing the company's property, organization and reputation. Members of the CMB are also Executive Vice Presidents (EVPs) with responsibility for the respective business areas and corporate staffs.	30 meetings in 2016. Effective 18 October 2016, Alberto Fabrini, EVP with a special responsibility for Bauxite & Alumina, resigned from Hydro. Eivind Kallevik was appointed acting head of Bauxite & Alumina effective 18 October 2016. Effective 13 December 2016, Silvio Porto was appointed EVP with a special responsibility for Bauxite & Alumina.	Biographical information on page 184 Note 8 and 9 to the consolidated financial statements for remuneration, share ownership and loans

Revenue 2016

NOK MILLION

81,953

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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 shareholders	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.

Amounts in NOK million	Albras 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 December 31,	Foreign currency exchange rates			Commodity prices		Interest	
Amounts in NOK million	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 December 31,	Foreign currency exchange rates			Commodity prices		Interest	
Amounts in NOK million	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)
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.

	2016				2015			
Amounts in NOK million	**Norway**	**Germany**	**Other**	**Total**	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

	2016				2015			
Amounts in NOK million	**Norway**	**Germany**	**Other**	**Total**	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.

Financial statements Norsk Hydro ASA

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

Appendix

Terms and definitions

ADRs	American Depositary Receipts, evidencing a specified number of ADSs
ADSs	American Depositary Shares, each ADS representing one deposited ordinary share
AluNorf	Aluminium Norf GmbH
AMPS	Aluminium Metal Production System. Hydro's best practice system and standard for world-class production and improvement in our primary metal business
Articles of Association	The articles of association of the Company, as amended and currently in effect
Audit Committee	The audit committee of the Company's Board of Directors
BABS	Bauxite & Alumina's best practice system, based on AMPS (see above) and adjusted to B&A needs
BAT	Best Available Techniques for pollution prevention and control
B&A	Hydro's Bauxite & Alumina business area
CO_2 equivalents (CO2e)	A measure used to compare the emissions from various greenhouse gases based upon their global warming potential
Code	The U.S. Internal Revenue Code of 1986, as amended
Company	Norsk Hydro ASA, a Norwegian public company limited by shares, or Norsk Hydro ASA and its consolidated subsidiaries, as the context requires
Compensation Committee	The compensation committee of the Company's Board of Directors
Consolidated Financial Statements	The consolidated financial statements and notes included in the Company's annual report to shareholders
Corporate Assembly	The corporate assembly, a body contemplated by Norwegian companies' law, with responsibility, among other things, for the election of the members of the Company's Board of Directors and nomination of the external auditor
Corporate Management Board	The corporate management board established by the Company's President and Chief Executive Officer to assist him in discharging his responsibilities
CRU	CRU International Limited
CSR	Corporate Social Responsibility
Disclosure Committee	The disclosure committee of the Company, comprised of members of senior management, which is responsible for reviewing financial and related information before it is made public
EEA	European Economic Area
EEA Agreement	The European Economic Area Agreement
EFTA	European Free Trade Association
EU	European Union
HSE	Health, security, safety and environment
Hydro	Norsk Hydro ASA and its consolidated subsidiaries
Hydro Aluminium	The aluminium business of Hydro, comprising the sub-segments Metals, Rolled Products, and Extrusion and Automotive
Hydro Monitor	Hydro's employee satisfaction survey, performed for all employees every second year
kWh	Kilowatt hour
LME	London Metal Exchange
mm	Millimeter
My Way	The process we use at Hydro for employee feedback and development. This process consists of regular dialogues between employee and leader, as well as a system tool.
NOK	Norwegian kroner
Nomination Committee	The nomination committee provided for in the Company's Articles of Association and operating under a charter established by the shareholders' representatives in the Corporate Assembly
OSE	Oslo Stock Exchange
tonne, mt	One metric tonne (approximately 1,000 kilograms or 2,205 pounds)
TWh	Terawatt hour (one billion kilowatt hours)
US GAAP	Generally accepted accounting principles in the United States
VAW	VAW Aluminium AG
VPS or VPS System	The Norwegian Central Securities Depository, Verdipapirsentralen
WTO	World Trade Organization
Yara	Yara International ASA

Cautionary note in relation to certain forward-looking statements

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

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

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

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

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HYDRO

Infinite aluminium