



HYDRO

Financial statements  
and Board of Directors'  
Report 2015

**TO BE  
CONTINUED...**



## Key figures

Amounts in NOK million unless other unit indicated	2015	2014
Revenue	87 694	77 907
<i>Underlying EBIT</i> : <b>a</b>		
Bauxite & Alumina	2 421	(55)
Primary Metal	4 628	3 937
Metal Markets	379	634
Rolled Products	1 142	698
Energy	1 105	1 197
Other and eliminations	(19)	(717)
Total	9 656	5 692
Net Income	2 333	1 228
Underlying return on average capital employed (RoaCE), percent	9.1 %	5.2 %
Investments <b>b</b>	5 865	3 625
Total assets	122 544	126 273
Share price year-end, NOK	33.13	42.44
Dividend per share, NOK	1.00	1.00
Number of employees, year-end <b>c</b>	13 263	12 922
Recordable injuries, per million hours worked	3.0	3.2
Greenhouse gas emissions, million tonnes CO <sub>2</sub> e <b>d</b>	7.3	7.3

## Highlights



### WELL POSITIONED

Several years of significant improvements and continuous technological advancements have strengthened Hydro's ability to create value. By the end of 2015, Hydro's industry-leading improvement programs contributed NOK 4.5 billion of annual improvements compared to 2011. Following a year of improved market conditions, the global aluminium market deteriorated in 2015 due to over-supply in China driving increased exports of primary metal in the form of semi-fabricated products. These developments, together with lower industry costs, resulted in a decline in all-in metal prices and alumina prices during 2015. At the same time, a weakening of the Norwegian kroner and Brazilian real against the US dollar strengthened the company's competitive position.

### 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 operation 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 highgrading 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 improved significantly to NOK 9,656 million from NOK 5,692 million. In 2015, Bauxite & Alumina and Rolled Products achieved the best underlying EBIT since Hydro became a pure aluminium company in 2007, while Sapa's underlying results more than doubled compared to the previous year.

**b**

#### Investments

During 2015, 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 a new production line in Grevenbroich for automotive body sheet.

**c**

#### Number of employees

The number of employees include about 430 employees in the rolling mill Slim, Italy, that was divested at year end.

**d**

#### Greenhouse gas emissions

Greenhouse gas (GHG) emissions from Hydro's current consolidated activities remained at the same level as in 2014 despite increased production of alumina and primary aluminium.

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## HYDRO'S REPORTING 2015

In addition to this separate document, Hydro's Board of Directors' report is included as an integral part of the company's "Annual Report - 2015".

The Board of Directors' report, together with the Financial Statements and 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, risk, shareholder information and corporate governance.

The "Annual report - 2015" is available in PDF-format on our website [www.hydro.com/reporting2015](http://www.hydro.com/reporting2015) in English. The "Board of Directors' report and Financial Statements - 2015" is also available in PDF-format as a separate document in both English and Norwegian. All parts of the reports can be downloaded and printed in PDF-format, together with additional, supplementary information. Paper copies of the reports can also be ordered on our website.

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## CONTENTS

BOARD OF DIRECTORS' REPORT	p.7
SHAREHOLDERS INFORMATION	p.26
COUNTRY BY COUNTRY REPORT	p.28
NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE	p.31
FINANCIAL STATEMENTS	p.F1

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## Poor weather, good mood

Rough markets remind me of the classical Norwegian phrase, claiming that there is no such thing as bad weather as long as you are dressed to withstand it. There is little one can do about the weather – or the market fluctuations. The crucial task is to equip to endure it.

The world around us has shifted significantly and fast – again. A year ago, we experienced undersupply and record-high aluminium premiums. Shortly after, Chinese oversupply and rising exports pushed aluminium prices to 6-year lows.

I am happy to report that Hydro's improvement efforts has continued independently with undiminished intensity, giving benchmark results and improved ability to stay the course.

These are not primitive cost-cuts, but operational enhancements with lasting effects – and they are supplemented with new improvement ambitions. To renew is in our DNA. Continuous renewal has brought Hydro passed our 110-year milestone, and is our key to a bright future within the fast-developing world of global aluminium.

### Steady demand growth

There is nothing wrong with the demand for our products. Light, formable, corrosion resistant and infinitely recyclable, aluminium enters into ever-new applications and the demand continues to show steady growth.

Aluminium substitution in the auto industry is the obvious example, as advanced aluminium sheets take the place of welded steel, saving weight, emissions and process costs. But also within copper, and especially cabling, the potential is great. Within heating, ventilation, air-condition and refrigeration, aluminium solutions continue to make their way, and the light metal is also becoming a cost-efficient and preferred alternative in long-distance transmission lines.

The combination of tougher customer demands and stricter legislations on the back of global megatrends such as the drive for more climate friendly solutions, is paving the way for innovative solutions in aluminium.

The challenge is that the global supply has grown even more than demand over the last years. China has added new capacity even though domestic growth rates are leveling off. But lower costs, driven by lower energy prices and depreciating currencies, as well as improved efficiency enable us to live with a price level that would hurt just a couple of

years ago. And long-term demand forecasts continue to convince us that aluminium is still the metal for the future.

### Better, Bigger, Greener

Building on our platform of a solid asset base, superior products, a strong financial position, leading technology, customer satisfaction, commercial capabilities and a highly competent workforce, our aspiration is to realize our full potential by building a Better, Bigger and Greener Hydro for the future.

#### *Better*

A strong balance sheet is our best tool to respond to market volatility, in addition to continuously improving our relative industry position. Today, Hydro is a first quartile aluminium and alumina producer with a strong balance sheet. This allows us to offer a safe and reliable dividend to shareholders, and enable us to strategically utilize the lower parts of the cycle to increase our value creation potential.

We are improving our relative position by lifting bauxite production in Paragominas, by stabilizing and debottlenecking alumina production at Alunorte and in moving alumina sales over to index pricing.

Energy has made significant progress in replacing expiring power contract for our fully-owned aluminium plants in Norway, and by successfully completing the Rjukan upgrade project we are ensuring continued, and safe, power production from Rjukan for many decades to come.

In Primary Metal, we continue to strengthen our technology lead by realizing the Karmøy technology pilot. We have now started the construction to realize the world's most energy and climate efficient primary aluminium technology, with spin off effects for the rest of the portfolio.

«From B to A» and the «Climb» programs are successfully completed. We have in total delivered NOK 4.5 billion in improvements since 2011. That does not mean improvements have come to an end. We are always seeking the next milestone. On our Capital Markets Day in

December we launched a new ambition aiming to realize new improvements of another NOK 2.9 billion by 2019.

There is no “Better” aspiration without improving on safety. We believe in the close link between safety performance and operational performance, and are proud to be close to industry benchmark – yet, not content. The number of high-risk incidents continued to fall in 2015. Although Hydro reduced its rate of total recordable injuries (TRI) per million work hours by 6 percent to 3.0, one of our best results ever, we are still a little behind our own ambition. In addition, an esteemed Hydro colleague became victim of the Germanwings tragedy during business travel. Our goal is to be below 2.0 by 2020, setting a new industry standard on safety.

#### *Bigger*

In Rolled Products we have been actively high-grading our portfolio through our growth projects in automotive and recycling, serving high margin segments and reducing our metal cost. We also acquired the world’s most advanced scrap sorting technology to strengthen our recycling position. In Primary Metal we are making a systematic approach to realize 200,000 t/y creep in our fully-owned and joint-venture smelters at a highly attractive cost per tonne. By considering to acquire Vale’s 40 percent stake in MRN, we may take an important step towards securing ownership of long-term bauxite supply.

#### *Greener*

Two years ago, we announced our goal of becoming carbon-neutral from a life-cycle perspective by 2020. We are still alone in our industry with such an ambitious climate target – and we are on track. We are lifting our capacity for post-consumer scrap, and are aiming to rehabilitate as much forest

as we clear at a 1:1 ratio by 2017. We are doing this because it is the right thing to do, but also because we believe we are building a competitive advantage.

#### **Committed to comply – eager to set standards**

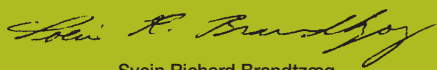
Health, safety and environment, corporate social responsibility, compliance and anti-corruption are of critical importance to our performance. Much evidence back up our conviction that there is a strong correlation between financial and extra-financial performance. Hydro has been working on compliance for several decades, both in terms of culture and internal control systems, recognizing that we need to be alert in any environment at any time. This job is never completed.

Hydro has signed on to the UN Global Compact, takes part in the World Business Council for Sustainable Development and the International Council on Mining and Metals, and is included on the Dow Jones Sustainability Indices and FTSE4Good list. We recently asked for a third-party assessment on our position compared to global best-practice, and were happy to see that our corporate culture and tone from the top was ranked among the very best. Proposals to further reduce risks associated with compliance and to ensure that the system is working as intended, are followed up.

#### **Belief in the future**

Tougher customer demands and stricter legislation inspire lighter, smarter and greener alternatives. We are ready to make aluminium a key part of the solution due to its superior design flexibility, usability and infinite recyclability. In combination with a highly competent work force – with the willingness and ability to improve every day – Hydro is equipped to endure bad weather. And if the weather changes, that will do no harm to our good mood.

“The drive for more climate friendly solutions is paving the way for innovations in aluminium.”



Svein Richard Brandtzæg  
President & CEO



## Our Business

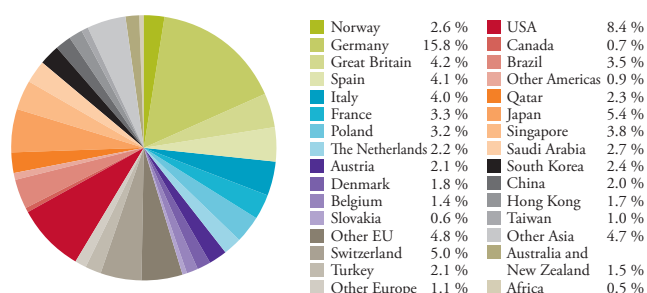
Hydro is a resource rich, fully integrated aluminium company with operations in all major activities along the aluminium industry's value chain. Our operations include one of the world's largest bauxite mines and the world's largest alumina refinery, both located in Brazil. We have primary metal production 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 2015, we delivered about 3.2 million metric tons of products to internal and external customers, mainly 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.

## Geographical distribution of operating revenues

NOK million 87,694



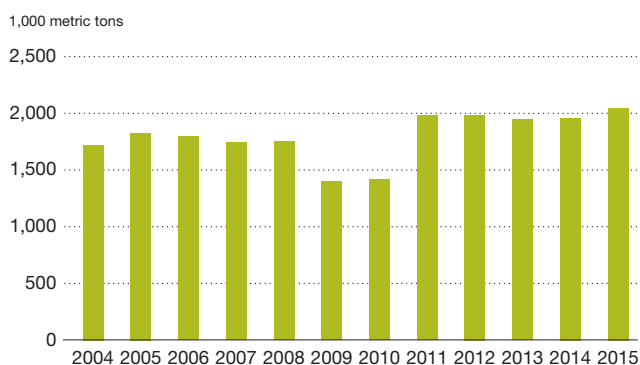
## The Hydro Way

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 50 countries. 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.

## Primary aluminium production



## Key developments and strategic direction

### Well positioned in challenging markets

After several years of significant operational and commercial improvements implemented throughout the value chain as well as continuous technological advancements, Hydro has strengthened its ability to create value and lifted the company's relative industry position in an environment of challenging market conditions.

By the end of 2015, Hydro's industry-leading improvement programs have contributed NOK 4.5 billion of annual improvements compared to 2011<sup>1)</sup> including NOK 0.8 billion realized in 2015. This includes the completion of the "From B to A" improvement program in Bauxite & Alumina, completion of the Rolled Products "Climb" program one year ahead of schedule, additional improvements in fully owned smelters beyond the "USD 300 per mt" program and further progress on the "USD 180 per mt" joint venture improvement program in Primary Metal which is progressing according to plan. On top of the NOK 4.5 billion of annual improvements, by the end of 2015 Sapa delivered targeted restructuring improvements and synergies of NOK 1 billion on an annual basis one year ahead of plan. Building on the momentum achieved in earlier years, Hydro has introduced a new ambition targeting NOK 2.9 billion of additional annual improvements for the period 2016 through 2019, including NOK 1.1 billion which is expected to be delivered in 2016.

During the year, Hydro made further progress in securing the robustness of its operations in Brazil. In 2015, a dialogue with the Para authorities resulted in a renewal of a deferral of ICMS taxes on certain goods and services for a 15 year period. In addition, both Paragominas and Alunorte achieved record production levels in 2015. Hydro also made progress towards securing and developing bauxite resources for the future. In October 2015, Hydro signed a Letter of Intent (LoI) for the possible acquisition of Vale's 40 percent ownership interest in MRN.

Technological leadership underpins Hydro's pursuit of operational excellence and the company's ambition of becoming carbon neutral from a life-cycle perspective by 2020. In February, 2016, Hydro decided to proceed with the construction of the 75,000 mt technology pilot at Karmøy utilizing Hydro's next-generation HAL4e technology. In 2015, the company acquired WMR Recycling GmbH which has the most advanced aluminium scrap sorting technology in the world.

Securing long-term competitive power sourcing has been of critical importance to sustain the viability of Hydro's smelter portfolio. In 2015, Hydro entered into long-term power agreements for the annual supply of energy totaling 1.05 TWh to its Norwegian smelters over a 10 year period from 2021 onwards. This was on top of 2.7 TWh sourced in the previous year. In addition, Alouette, Hydro's part-owned aluminium plant in Canada, agreed on new terms and conditions extending the existing supply of electricity for a 13 year period to 2029. Hydro also secured a new power contract for part of the energy requirement of its Neuss aluminium plant in Germany for the period 2018 to 2025.

After a year of improved market conditions in 2014, the global aluminium market deteriorated again in 2015 due to over-supply in China and increased exports of primary metal in the form of semi-fabricated products from China. These developments, together with lower industry costs, resulted in a continual decline in all-in metal prices and alumina prices during 2015. At the same time, a considerable weakening of the Norwegian kroner and Brazilian real against the US dollar, both major cost currencies for Hydro's operations, strengthened 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 ambitious 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 new NOK 2.9 billion improvement ambition. Tight capital discipline and competitive shareholder return will remain top priorities together with maintaining the company's robust financial position.

To become Bigger, selective, profitable growth opportunities will be evaluated to improve Hydro's relative industry position including investments in high-grading the products portfolio and strengthening recycling capabilities. Hydro is also maturing attractive growth projects for the future, mainly depending on developments in the balance between industry supply and market demand.

1) Except for the Primary Metal USD 300 per mt program which is compared to 2009.

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

Underlying EBIT for 2015 improved significantly to NOK 9,656 million from NOK 5,692 million in the previous year. Bauxite & Alumina and Rolled Products achieved the best underlying EBIT since Hydro became a pure aluminium company in 2007, while Sapa's underlying results more than doubled compared to the previous year. Negative effects from lower realized LME prices and premiums were more than offset by positive currency effects from the stronger USD and ongoing improvement efforts. At the same time, Hydro further strengthened its financial position, ending the year with a net cash position of NOK 5.1 billion, compared to a net debt position of NOK 0.1 billion at the end of 2014.

The number of high risk incidents within Hydro's operations continued to fall in 2015, and Hydro's safety performance remains among the best in the industry. The company reduced its TRI rate (total recordable injuries per million hours worked) by 6 percent to 3.0. Although this was one of the best results in the company's history, it was not sufficient to meet the target of 2.8 for the year. In addition, one of Hydro's employees became a victim of the Germanwings flight crash during business travel.

Sapa Profiles Inc. Portland (SPI), a subsidiary of Sapa AS (owned 50 percent by Hydro) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding aluminum extrusions that SPI manufactured from 1996 to 2015 and delivered to a supplier to NASA. SPI is cooperating fully in these investigations. In response to these pending investigations, Sapa has performed audits of its quality assurance processes at all relevant extrusion operations in North America, and is in the process of finalizing audits of its extrusion operations in Europe. Quality issues identified in these audits have been, or are in the process of being, addressed with the affected customers and remediation actions are being undertaken. The investigations are currently ongoing, and, at this point, the outcome of the DOJ investigations and of the identified quality issues, including financial consequences on Sapa, is uncertain. Based on the information known to Hydro at this stage, Hydro does not expect any resulting liabilities to have a material adverse effect on its consolidated results of operations, liquidity or financial position. Hydro has also

initiated a review of all of its relevant sites which will continue through 2016. Preliminary results are being further evaluated and followed up.

### Priorities for 2016

Going forward, Hydro intends to continue to lift the performance and profitability of its operations while securing safe, sustainable business practices. Priorities in 2016 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 ambitions and leading R&D
- Pursuing recycling opportunities to improve earnings and reduce environmental impact
- Further developing high-margin growth segments through innovative and differentiated products
- Securing long term access to raw materials including bauxite and energy
- Maintaining capital discipline, reliable dividend level and strong financial position

Hydro is intensifying its efforts to further improve its TRI rate for 2016 based on leadership, employee involvement and defined risk mitigating activities. This includes further efforts to improve the safety performance of the Rolled Products business area. Continued strengthening of the company's compliance activities is also an important objective for 2016, including further awareness training and stronger emphasis on integrity risk management in the supply chain. To further improve social conditions in Barcarena, Brazil, Hydro is developing an infrastructure project that aims to have significant impact on the social development of the municipality.

Hydro will update its people strategy in 2016 to ensure that it continues to support the company's strategic goals. This will include new projects and further embedding of key people processes such as the internal performance and development process, and the employee engagement survey.

Following completion of its ambitious "From B to A" improvement program, reducing cost and increasing efficiency continues to be a key priority for Bauxite & Alumina, together with further lifting alumina and bauxite production through stable and robust operations. Targeting NOK 500 million of the NOK 1 billion "Better Bauxite & Alumina" improvement ambition in the coming year, Hydro will also concentrate on higher productivity, lower manning and further optimization of the company's sales portfolio.



Hydro intends to continue increasing its share of alumina sales volumes at index pricing as old legacy LME-linked contracts gradually expire.

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. This includes savings and improvements of roughly NOK 400 million in 2016 comprised of NOK 100 million for the company's fully owned smelters and roughly NOK 300 million relating to the completion of the USD 180 per mt joint venture improvement program. In addition to further improving productivity and reducing costs, Primary Metal aims to lift production capacity at existing plants through proven technological developments. 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 beyond lean operations.

Optimizing margins by focusing on high-premium products will continue to be high on the agenda for Hydro's Metal Markets operations. Implementation of new casting technology at the company's sheet ingot casthouses in Høyanger and Årdal, Norway, will also enable Hydro to target more advanced market segments including customers in the automotive segment.

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 projects currently include the ramp-up of a recently completed recycling line for used beverage cans at Hydro's smelter in Neuss, Germany, and the completion of a plant upgrade in the Clervaux, Luxembourg, remelter.

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 is investing in a new production line to lift its nominal capacity for aluminium car body sheet to 200,000 mt per year by 2017. Following the completion of the "Climb" improvement program one year ahead of plan, the "Better Rolled Products" improvement ambition is targeting NOK 900 million by 2019. Hydro expects to generate roughly

NOK 200 million of this amount in 2016 through improved product mix, reduced metal cost due to increased recycling and further operational improvements.

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. Operational excellence will continue to be a priority to secure cost-effective, safe and reliable production. The Norwegian government has sent out a proposal on hearing relating to the organization of ownership of hydropower assets that would allow private entities physical hydropower offtake from ownership stakes below 33.4 percent in hydropower companies (ANS/DA model). If approved, this will enable Hydro to maintain access to physical power from RSK assets after reversion through restructuring the assets within a one-third ownership position in a company with liability.

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 reliable dividend level to shareholders and preserving Hydro's investment grade credit rating continue to be key priorities.

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 Para 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 Para.

### **Improved position in an industry with attractive potential**

Growth in aluminium demand remains firm, despite volatile economic conditions, driven by a general increase in consumption as well as 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 and increasing consumption are supporting demand growth in emerging economies.

Hydro has strong positions throughout the value chain and a highly 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.

Hydro has an attractive project portfolio, including the possibility for a new alumina refinery in Barcarena, close to Alunorte, a possible expansion of the Paragominas bauxite mine, the potential of doubling the capacity of the Qatalum smelter 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. 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.

Climate, HSE, CSR and compliance remain high on Hydro's priority list 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 become the industry benchmark with a TRI below 2.0 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 credible and effective certification platform for responsible production, sourcing and stewardship of aluminium.

Hydro was highly ranked on corporate culture and tone from the top in a compliance comparison study undertaken on behalf of the company and plans further improvement to simplify, harmonize and strengthen its internal routines and controls.

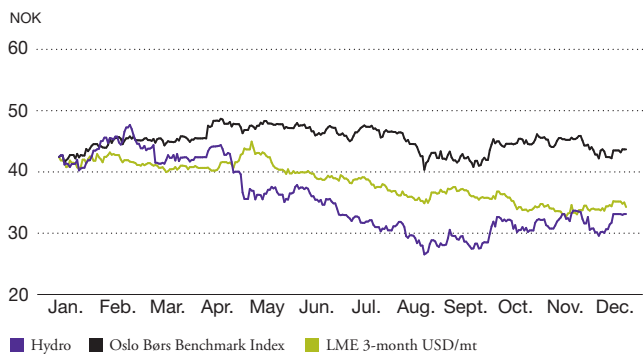
## Investor information

Hydro's share price closed at NOK 33.13 at the end of 2015.

For 2015, Hydro's Board of Directors proposes to pay a dividend of NOK 1 per share, demonstrating the company's commitment to provide a stable cash return to shareholders, and taking into account the uncertain market outlook. The proposed payment represents a 101 percent payout ratio for the year reflecting Hydro's operational performance for 2015 and strong financial position.

Hydro's policy is to pay out, on average, 40 percent of net income as ordinary dividend over the cycle to our shareholders. This policy was revised by Hydro's Board of Directors in 2015, from 30 percent to 40 percent of net income over the cycle.

### Share price development in 2015



## Financial results

### Underlying operating results

#### Key financial information

NOK million, except per share data	Year 2015	Year 2014
Revenue	87 694	77 907
Earnings before financial items and tax (EBIT)	8 258	5 674
Items excluded from underlying EBIT <sup>1)</sup>	1 398	18
<b>Underlying EBIT</b>	<b>9 656</b>	<b>5 692</b>
<i>Underlying EBIT :</i>		
Bauxite & Alumina	2 421	(55)
Primary Metal	4 628	3 937
Metal Markets	379	634
Rolled Products	1 142	698
Energy	1 105	1 197
Other and eliminations <sup>2)</sup>	(19)	(717)
<b>Underlying EBIT</b>	<b>9 656</b>	<b>5 692</b>
<b>Underlying EBITDA</b>	<b>14 680</b>	<b>10 299</b>
Net income (loss)	2 333	1 228
<b>Underlying net income (loss)</b>	<b>6 709</b>	<b>3 728</b>
Earnings per share <sup>3)</sup>	0.99	0.39
<b>Underlying earnings per share <sup>3)</sup></b>	<b>2.98</b>	<b>1.55</b>
<i>Financial data:</i>		
Investments <sup>4)</sup>	5 865	3 625
<b>Adjusted net debt <sup>5)</sup></b>	<b>(8 173)</b>	<b>(13 587)</b>

#### Key Operational information <sup>6)</sup>

	Year 2015	Year 2014	% change prior year
Bauxite production (kmt)	10 060	9 481	6 %
Alumina production (kmt)	5 962	5 933	-
Primary aluminium production (kmt)	2 046	1 958	4 %
Realized aluminium price LME (USD/mt)	1 737	1 850	(6) %
Realized aluminium price LME (NOK/mt) <sup>7)</sup>	13 813	11 624	19 %
Realized NOK/USD exchange rate <sup>7)</sup>	7.95	6.28	27 %
Metal products sales, total Hydro (kmt) <sup>8)</sup>	3 186	3 274	(3) %
Rolled Products sales volumes to external market (kmt)	948	946	-
Power production (GWh)	10 894	10 206	7 %

1) See section Items excluded from underlying EBIT and net income later in this section for more information on these items.

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

3) Earnings per share and Underlying earnings per share are calculated using Net income and Underlying net income attributable to Hydro shareholders, and using the weighted average number of ordinary shares outstanding. There were no significant diluting elements.

4) Investments include non-cash elements relating to capitalized leases.

5) See note 40 Capital Management in Hydro's Financial statements - 2015 for a discussion of the definition of adjusted net debt.

6) Amounts include Hydro's proportionate share of production in equity accounted investments.

7) Including the effect of strategic hedges (hedge accounting applied).

8) Sales from casthouses (incl. Rheinwerk), remelters, third party sources and liquid metal. Sales volumes for 2014 have been restated.

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 improved significantly compared to 2014, influenced by positive currency developments and lower raw material costs, partly offset by lower realized alumina prices. Both Paragominas and Alunorte reached record production for 2015 amounting to 10.1 million mt and 6.0 million mt respectively. In 2015, Bauxite & Alumina also achieved the best underlying EBIT since Hydro acquired the business in 2011. Bauxite & Alumina completed the "From B to A" improvement program realizing NOK 300 million during the year and reached the overall targeted improvement of NOK 1 billion compared to 2011.

Primary Metal underlying EBIT improved for 2015 compared with the previous year despite lower realized LME and premiums due to significant positive effects from the stronger US dollar. Results from Qatalum declined compared with the previous year as a result of lower realized all-in metal prices. By the end of 2015, Primary Metal achieved USD 140 per mt (Hydro's share) under the global joint venture improvement program. Further improvements were also achieved for the fully owned smelters beyond the USD 300 per mt program which was concluded in 2013.<sup>9)</sup>

Underlying results for Metal Markets decreased compared with 2014 mainly due to substantial losses from sourcing and trading activities due to the decline in standard ingot premiums. This was partly offset by higher results from remelt operations. In addition, underlying results were influenced by negative currency and inventory valuation effects. Metal product sales excluding ingot trading was somewhat lower compared with 2014 mainly due to lower remelt production at our plants.

Rolled Products Underlying EBIT for 2015 improved significantly, mainly due to positive currency developments from the stronger USD.<sup>10)</sup> Margins improved somewhat, mainly for our general engineering segment. Shipments of automotive car body sheet, can beverage and general engineering products increased compared to the previous year while sales of packaging foil was stable. Sales of lithographic

sheet declined somewhat. In 2015, Rolled Products completed the "Climb" improvement program one year ahead of schedule achieving cumulative annual saving and improvements of NOK 800 million compared to 2011.

Underlying EBIT for Energy in 2015 declined compared to the previous year mainly due to lower spot prices partly offset by higher production. Energy produced 10.9 TWh of renewable hydroelectric power, which is above the normal annual production of 10 TWh.

Sapa delivered significantly improved underlying EBIT for 2015, supported by internal improvements in Europe and across the organization, as well as a strong performance in the North American business. Positive effects from a weakening Norwegian krone were offset by sharply falling metal premiums. The restructuring program initiated in 2013, targeting annual synergies of around NOK one billion by the end of 2016, reached its target in 2015, one year ahead of time.

## Reported results

Reported earnings before financial items and tax amounted to NOK 8,258 million in 2015, including net unrealized derivative gains and negative metal effects of negative NOK 454 million in total. Reported earnings also included charges of NOK 285 million relating to the termination of the Vækerø Park lease contract, net losses on divestments of NOK 365 million, including loss 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, as well as other positive effects amounting to NOK 37 million. In addition, reported earnings included a net charge of NOK 331 million for Sapa (Hydro's share net of tax), including NOK 256 million relating to restructuring charges, NOK 66 million relating to unrealized derivative losses, a net foreign exchange loss of NOK 23 million and other positive effects of NOK 14 million.

In the previous year, reported earnings before financial items and tax amounted to NOK 5,674 million including net unrealized derivative gains and positive metal effects of NOK 729 million in total. Reported earnings also included impairment charges of NOK 207 million, net charges of NOK 512 million in Sapa mainly relating to restructuring activities and impairments of fixed assets in China, and other items amounting to a net charge of NOK 28 million.

Net financial expense amounted to NOK 4,834 million in

9) Amounts relating to annual improvements achieved by the end of 2015 for the USD 180 per mt joint venture program are based on a comparison to cost and revenue levels in 2011. Amounts relating to the USD 300 per mt program are compared to 2009.

10) Rolled Products incurs currency gains and losses on export sales from its Euro based operations mainly denominated in US dollars. These gains and losses affect the value of the margin contribution to underlying EBIT and can be significant. Offsetting gains and losses on internal hedges are reported as financial items.

2015 compared to NOK 3,554 million in the previous year, both years affected by substantial currency losses.

In 2015 income before tax amounted to NOK 3,425 million including a net foreign exchange loss of NOK 4,397 million. The net exchange loss in 2015 was mainly comprised of unrealized currency losses on US dollar debt in Brazil and embedded derivatives in power contracts denominated in Euro, in addition to unrealized losses on US dollar debt in Norway. In the previous year income before tax amounted to NOK 2,121 million including a net foreign exchange loss of NOK 3,161 million. In 2014 the net exchange loss related mainly to debt denominated in US dollar and intercompany balances denominated in Euro, and also included unrealized losses on embedded derivatives in power contracts denominated in Euro.

Income taxes amounted to a charge of NOK 1,092 million in 2015, compared with a charge of NOK 892 million in 2014. The tax rate of 32 percent reflects the relatively high share of reported income before tax subject to power sur tax, partly offset by recognition of deferred tax assets previously not recognized.

Net income amounted to NOK 2,333 million in 2015, compared with NOK 1,228 million in 2014.

### Liquidity, financial position, investments

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

In 2015, cash provided from continuing operating activities of NOK 14.3 billion was more than sufficient to cover investments net of sales proceeds amounting to NOK 5.3 billion and dividend payments to majority shareholders of NOK 2.0 billion. Net loan repayments amounted to NOK 5.0 billion, including repayment of short-term debt in Brazil of NOK 4.1 billion.

Hydro's net debt changed from net debt of NOK 0.1 billion at the end of 2014 to net cash of NOK 5.1 billion at the end of 2015. This is also reflected in a decrease in adjusted net debt excluding equity accounted investments. Hydro's adjusted net debt to equity ratio was 20 percent, well below its targeted maximum ratio of 55 percent. Our funds from operations/adjusted net debt ratio was 89 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 after being extended one year. There was no borrowing under the facility as of December 31, 2015. The facility will continue to serve

primarily as a back-up for unforeseen funding requirements. See note 35 to the consolidated financial statements for additional information.

## Market developments and outlook

### Upstream market developments

Three month LME prices started the year around USD 1,850 per mt and reached a level of USD 1,938 per mt in the second quarter before falling to USD 1,435 towards end of November. At the end of the year, prices increased again to around USD 1,515 per mt. Prices averaged USD 1,800 per mt in the first half of 2015 and declined to an average of roughly USD 1,565 per mt in the second half of the year.

Standard ingot and product premiums were at record levels at the beginning of 2015, but fell throughout the year, ending the year at more historical levels. Average North American standard ingot premiums decreased to around USD 280 per mt or around 38 percent lower than average premiums in 2014. Corresponding standard ingot premiums in Europe declined to USD 237 per mt or 44 percent lower than in 2014. Premium developments have been influenced by exports of semi-finished products from China and increased metal available from warehouses.

Global primary aluminium consumption increased by 4 percent to 56.3 million mt in 2015. Global supply increased by about 6 percent resulting in a surplus of around 1.2 million mt. For 2016, global primary aluminium demand is expected to increase by 3-4 percent while supply is expected to increase by about 1 percent, resulting in a largely balanced global market.

Demand for primary aluminium outside China increased to 27.2 million mt or around 1 percent, while corresponding production increased by 1.6 percent to 26.3 million mt. Demand for primary aluminium outside China is expected to grow around 2-4 percent in 2016. Corresponding production is expected to be largely stable, resulting in a larger deficit in the world outside China in 2016.

Demand for primary metal in China increased around 7 percent to 29.1 million mt in 2015. Corresponding production increased by around 10 percent, resulting in a surplus of around 2.1 million mt for the year. Chinese primary production growth is expected to moderate in 2016 to around 2 percent influenced by announced curtailments and closures while primary demand is estimated to increase by around 3-5 percent, resulting in a continued but reduced surplus.

LME stocks fell throughout the year from 4.2 million mt at the end of 2014 to 2.9 million mt at the end of 2015. Most of the metal in warehouses continues to be owned by financial investors. Total inventories, including unreported inventories, however, were estimated to have increased by about 1.2 million mt throughout 2015, amounting to around 14.7 million mt at the end of 2015.

Demand for foundry alloys and sheet ingot in Europe has been solid during 2015 and increased compared to the previous year. Developments in the European wire rod market were also positive, with increasing volumes compared to 2014. Consumption of extrusion ingot was stable. Consumption of extrusion ingot has been strong in the US in 2015 while the demand for primary foundry alloys increased moderately compared to 2014. In Asia (excluding China), the market for extrusion ingot and primary foundry alloys showed moderate growth, but flattened towards the end of the year.

The global alumina market was oversupplied at the end of 2015. Prices averaged USD 301 per mt for the year, a decrease of 9 percent compared to 2014, and ended the year at USD 201 per mt. Average prices as a percentage of LME increased and represented 17.8 percent for the year compared with 17.5 percent in 2014. Spot prices at the end of 2015 represented 13.3 percent of LME.

Chinese alumina imports amounted to 4.7 million mt in 2015, a decrease of 12 percent compared with 2014. Bauxite imports into China increased to 56.1 million mt, or 54 percent higher compared to 2014 driven by imports from Malaysia. In January 2016, Malaysia imposed a three month moratorium on bauxite mining to reduce environmental pollution caused by poorly controlled mining activities.

### Downstream market developments

The European market for flat rolled products increased by around 2 percent in 2015. 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 around 6 percent in 2015.

Demand for general extruded products was strong in North America compared to 2014, with an increase of more than 5 percent. European extrusion markets were stable with a continued weakening in the building systems market offset by positive developments in most other market segments.

### Energy market developments

In 2015, Nordic electricity prices declined further compared to the previous year. Developments were influenced by strong Nordic hydropower production in addition to high

continental solar and wind generation together with wet, mild and windy weather conditions towards the end of the year. Nordic consumption increased by 1.9 TWh to 377.6 TWh in 2015. Total power production increased by 6.2 TWh to 393.4 TWh.

The economic downturn in Brazil has had a negative influence on demand for power throughout the country compared with 2014. This, combined with other hydrological factors has resulted in a more balanced power market compared to the previous year which was significantly influenced by severe drought conditions.

## Risk

Hydro has developed and implemented an enterprise risk management model, approved by the company's board of directors. In accordance with this model, Hydro continuously identifies, analyzes, addresses and monitors risk factors relevant for the company's business. 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 review meeting structure.

Below is a description of some of the principle risks identified that may affect Hydro's business operations, financial condition and results of operations and share price. The description also includes a summary of the actions taken to mitigate the risks. However, these efforts may fail or prove to be inadequate to mitigate the risks Hydro faces.

*Hydro is subject to a broad range of laws and regulations in the legal jurisdictions in which the company operates. These laws and regulations impose stringent standards and requirements and potential liabilities. 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'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.

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 of Brazil have deteriorated, leading to mounting pressure to increase tax revenues.

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.

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.

Hydro is, directly and indirectly, exposed to increasingly demanding legislation on reducing greenhouse gas emissions. An increasing number of countries have introduced, or are likely to introduce legislation with the objective of reducing greenhouse gases emissions. This is expected to accelerate following the new climate accord reached at the Paris climate conference in December, 2015.

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. Hydro engages in significant R&D activities focused on reducing energy consumption and improving electrolysis efficiency including anode consumption which is the main source of CO<sub>2</sub> emissions from our smelter operations. Hydro has an ambitious mid-term strategic goal to become carbon-neutral from a life-cycle perspective by 2020.

*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. Macroeconomic development also drives changes in currency values, which has a significant effect on Hydro's cost and competitive position.*

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

Global aluminium oversupply, in addition to high global stock levels, have had a negative effect on LME prices in recent years. Following improvements in 2014, market conditions deteriorated throughout 2015, impacted by oversupply in China leading to increased exports of primary metal in the form of semi-fabricated products. 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 during 2015. The majority of Hydro's upstream capacity is located in countries that have experienced historically strong currencies and/or inflationary pressures. In 2015 the company's major cost currencies weakened substantially, having a significant positive impact on our cost level and competitive position. If our main cost currencies strengthen going forward, this will increase our operating cost and weaken our global competitive position.

Hydro's core strategy to reduce the risks related to weak economic conditions, unfavorable market developments and competition from China is the continuous improvement of the company's business in terms of operational efficiency, cost reductions, product high-grading and enhanced commercial strategies. In order to secure financial liquidity, we concentrate on maintaining a strong balance sheet, strong capital discipline and a continued focus on working capital.

*Hydro may be unable to achieve or maintain the operational targets necessary to secure the competitiveness of the company's business. Failure to develop or maintain a high performance culture throughout the organization will reduce the competitiveness of the company's business and result in the failure to meet our long-term financial targets.*

Since the acquisition from Vale in 2011, Hydro has been determined to lift the operating performance of the Bauxite & Alumina assets located in Brazil and the related global commercial operations. 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.

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 and other natural phenomena; mining and processing equipment failures and unexpected maintenance problems and interruptions. Hydro's bauxite reserves in Brazil and the estimated quantities of bauxite that Hydro expects can be economically mined and processed are also subject to material uncertainties. In addition our operations are dependent upon large volumes of energy 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.

A cornerstone in the company's work to reach operational targets and secure the competitiveness of its operations is the use of standardized business systems to structure and

formalize continuous improvement work. 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.

*Hydro makes significant capital investments and acquisitions as part of its business development, and may fail to realize the benefits expected from such transactions and projects. Major projects and acquisitions are subject to significant risk, and uncertainty. Acquisitions may also contain significant unidentified risks and liabilities.*

Hydro has decided to build the Karmøy Technology Pilot to operationalize “next generation” cell and smelter technology. We may fail to execute the project on time or on budget or to achieve the expected technical enhancements and benefits for the existing smelter portfolio.

Hydro has made major investments in emerging and transitioning markets and future investments may occur or may be more likely to occur in such places. Investing in emerging and transitioning markets is demanding, and subject to significant uncertainties, and Hydro may not be capable of succeeding in expanding its business in such markets.

At the end of 2015, around half of Hydro’s smelter capacity was owned through interests in joint ventures and partly-owned subsidiaries, and the company’s 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 Hydro holds a majority position, also entail the risk of diverging interests between business partners, which could impede the company’s ability to realize its objectives, repatriate funds or 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.

*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 addition, the potential physical impacts of climate change on our facilities and operations is highly uncertain and may cause disruptions in our operations.

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. We have also focused on increasing our resilience against power outages. In addition, Hydro maintains insurance to protect against certain risks in such amounts as it considers reasonable and in accordance with market practice.

*Hydro could be negatively affected by investigations, legal proceedings, material CSR incidents or major non-compliance with internal or external regulations.*

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. Such failures could result in significant, negative publicity and potential serious harm to Hydro's reputation.

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 developing infrastructure projects that aim to have significant impact on the social development of the municipality.

In 2015, Sapa, a joint venture owned 50 percent by Hydro, disclosed that quality test results at its fully owned subsidiary Sapa Portland Inc. (SPI) had been altered in certain instances by employees during the period between 1996 and 2015. Please see Key developments and strategic direction section in this report for further information.

Hydro has a comprehensive compliance system, including a Code of Conduct that applies to all employees, and regular and systematic compliance training. We are proactive in our interaction with counterparties and our supplier requirements regarding integrity and compliance form an integral part of our procurement process. Hydro is active in, and has a long tradition for, conducting dialogue with the relevant parties affected by our activities.



*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. Cyber crime is increasing globally, and Hydro is exposed to threats to the integrity, availability and confidentiality of our systems.

Hydro has launched several initiatives to increase the robustness of the company's IS/IT infrastructure towards malicious attacks by improving system infrastructure and educating employees to develop and improve secure work processes and routines.

## Compliance, controls and procedures

Hydro's 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. 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).

In the autumn of 2014, the board of directors initiated an independent external review of Hydro's compliance system. The review concluded that the business culture and tone from the top is at a level regarded as leading practice. Recommendations for improvements have been included in the management's continuous improvement work of the compliance system to secure that compliance risk is adequately controlled and works according to its intentions.

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

In 2015, research and development costs recognized as an expense amounted to NOK 330 million compared to NOK 277 million in 2014. The increase is mainly due to increased R&D related to preparation for the Karmøy Technology Pilot, developing aluminium product solutions with

improved properties and environmental benefits, and increased R&D activities in Bauxite & Alumina. 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). The 50/50 joint venture Sapa has its own research centers. A new research department for Bauxite & Alumina has been established at Alunorte in Barcarena, Brazil.

Our technology efforts are concentrated on:

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

All business areas are responsible for their own technology development and execution of their 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 corporate management board in developing overall research and technology priorities and strategies.

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

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 12.5 kWh/kg. A 75,000-metric-ton pilot plant with the aim of full-scale industrial testing of this proprietary technology is under construction at Karmøy, Norway, supported by a contribution of NOK 1.6 billion from 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 13,000 suppliers, Hydro is at risk of being exposed to corruption and human rights violations. Hydro's approach is zero tolerance, and in the event of violations, our policy is first to correct, then act in a transparent manner, learn and implement corrective actions.

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:

- Ensuring a robust compliance environment
- Combating corruption
- Respecting human rights
- Promoting CSR in our supply chain

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 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 any of his or her superiors, the local human resources or HSE staffs, a safety representative, the compliance officers 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 contractors have anonymous access in their own language at all times via toll-free phone numbers, Hydro's intranet or the Internet. In certain countries, e.g. Spain, there are, however, legal restrictions on such reporting lines. AlertLine is publicized throughout the organization. In 2015, 83 reports were filed through the AlertLine compared to 60 in 2014. All were investigated and nine cases lead to in total 23 dismissals.

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.

For information about alterations of certain test records in Sapa, please see Key developments and strategic direction in the Board of directors' 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 dialog with traditional Quilombola groups in Brazil. We have developed a system for third party grievances for all operations in Brazil, which will work as a pilot for a systematic approach for all of Hydro. The system was implemented in Brazil in 2014, but there is still a need to make it better known. Social unrest in Barcarena in Brazil may cause a risk of operational instability and reduced performance. To improve social conditions, Hydro is developing infrastructure projects that aim to have significant impact on the social development of the municipality.

Since 2012 Hydro has cooperated with the Danish Institute of Human Rights (DIHR). In 2014, the work included further development of our human rights due diligence systems as well as CSR assessment of all of Hydro's Brazilian operations, and evaluation of the third party grievance mechanism in Brazil. DIHR's complete assessment report was published at [www.hydro.com](http://www.hydro.com) in 2015. DIHR is also one of several stakeholders involved in the ongoing updating of Hydro's human rights policy.

In 2015, Hydro spent NOK 30 million on community investments, charitable donations and sponsorships, of which 43 percent was related to community investments. Also in 2015, we implemented a new system for planning, monitoring and evaluating social projects in Brazil which was successfully tested for three different projects.

Hydro supports the principle of freedom of association and collective bargaining and has a long tradition in maintaining a good dialogue with employee organizations. As an employer, owner and purchaser, our most important role related to human rights is to secure decent working conditions in our own organization, in part-owned companies and with our suppliers. This is based on our commitment to ILO's eight core conventions. Hydro's position on freedom of association, child and forced labor is also anchored in its global directives. In addition, we have a corporate agreement with the main unions regarding the European Works Council. Almost all our production sites in Europe and Brazil are unionized. These sites represent 98 percent of Hydro's employees.

Hydro's Integrity Program is based on the Code of Conduct, and is an important tool to prevent corruption and human rights violations. The program is under revision and will be renamed Hydro Integrity Guidelines. Roll-out of the program is planned for 2016, including training for relevant employees.

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.

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. Implementation is risk-based and takes into consideration contractual value, country risk, etc. The requirements include auditing rights and the suppliers' responsibility towards their suppliers and sub-suppliers. Totally 129 supplier audits took place in 2015.

During 2015, approximately 1,800 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 led to a number of issues which were further investigated. Regular transaction based screening of suppliers is also carried out.

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. We use the Global Reporting Initiative's G4 guidelines for voluntary reporting of sustainable development.

Hydro also supports the Extractive Industries Transparency Initiative (EITI) and complies with the Norwegian legal requirements on country by country reporting, see later in this report.

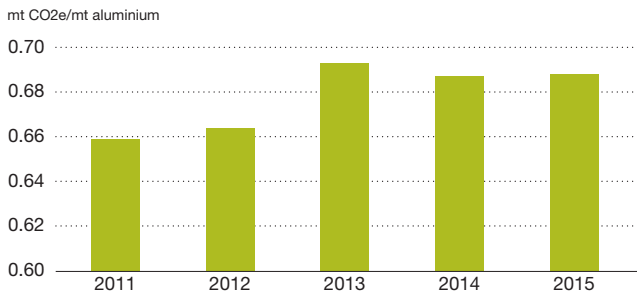
## Environment

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.

Our 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. Some of the measures include:

- Increasing production of renewable hydropower and primary aluminium in Norway
- Increasing energy efficiency and reducing emissions in production processes in our alumina refinery, aluminium plants and rolling mills
- Developing products and solutions, establishing partnerships with advanced customers
- Supporting global energy-efficiency goals by helping customers reduce energy consumption and emissions
- Reducing waste and increasing recycling of aluminium
- Utilizing advanced sorting technology and developing recycling-friendly alloys
- Increasing reforestation

### GHG emission intensity – alumina refining



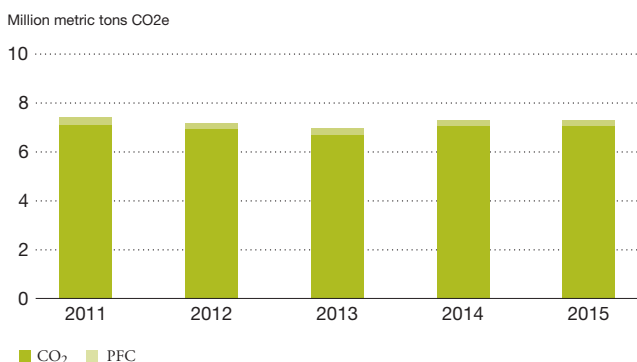
Includes greenhouse gas (GHG) emissions from alumina refining.

Hydro's ambition is to be climate neutral in a life cycle perspective by 2020 by reducing direct and indirect emissions, increasing the share of recycled metal in our production and delivering more aluminium to markets and products which contribute to CO<sub>2</sub> savings. The target includes the effects of forest clearing and rehabilitation in Paragominas.

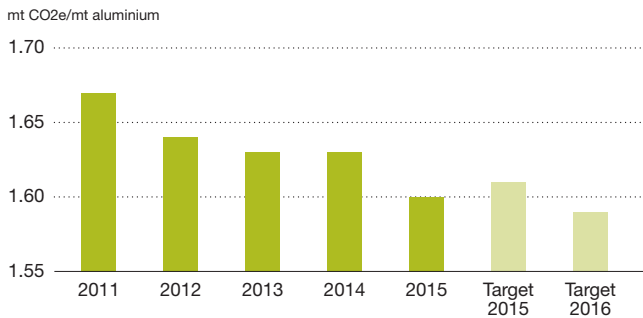
Greenhouse gas (GHG) emissions from Hydro's current consolidated activities as well as emissions from our ownership equity - including indirect emissions from electricity generation - remained at the same level as in 2014 despite increased production of alumina and primary aluminium. From 2016, we will adjust our reporting of GHG emission data in the annual report to be in line with the EU Emissions Trading Scheme (ETS) requirements.

Our ambition is to take a strong position in aluminium recycling. In 2015, we recycled 1.1 million metric tons (mt) of aluminium which was the same level as in 2014. Of this, 134,000 mt was post-consumer scrap, an increase of 21 percent during the year. A new used beverage can line in Neuss, Germany, and increased recycling capacity in

### Direct greenhouse gas emissions from Hydro's consolidated activities



### GHG emission intensity – electrolysis



Includes greenhouse gas (GHG) emissions from electrolysis in primary aluminium production.

Clervaux, Luxembourg, finalized at year-end will increase the capacity further. Our ambition is to recycle 250,000 mt post-consumer scrap by 2020.

Our environmental strategy also emphasizes:

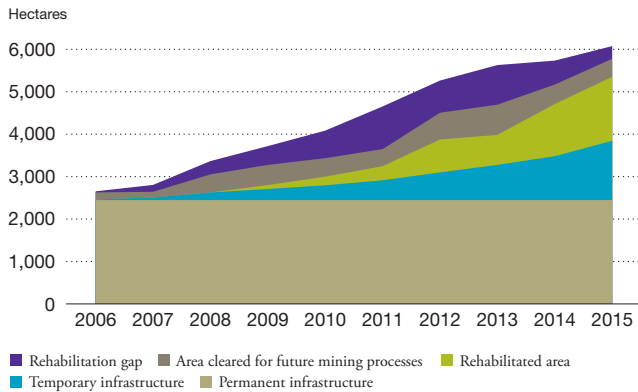
- Ecosystems and biodiversity
- Waste and efficient resource use
- Water use
- Product stewardship

Biodiversity is an important issue in Pará and also to watersheds for our hydropower production in Norway. When developing new projects, we examine environmental issues in advance. The long-term aspiration is no net loss of biodiversity.

We have identified improvement potential in reforestation and wildlife management at the bauxite mine in Paragominas, and established a biodiversity strategy for Paragominas in 2013. Our top reforestation ambition is to achieve a balance of 1:1 in 2017 between rehabilitation and mined areas, and to close the existing reforestation gap by 2020. We cooperate with other mining companies and academic institutions to increase our knowledge and secure a science-based approach. This includes the formation of the Biodiversity Research Consortium Brazil-Norway (BRC), established 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

## Land use and rehabilitation – Paragominas



Permanent infrastructure includes areas related to administrative buildings, industrial facilities, current tailing ponds, the pipeline to Alunorte and permanent roads. Temporary infrastructure includes among other things temporary roads and areas dedicated for new tailing ponds. In 2015, we disturbed 393 hectares of land and rehabilitated 278 hectares.

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 tailing ponds, which are expected to be full by 2017, are constructed on a gradient slope. The new tailing dams will be situated on a plateau with an even safer construction. The dams are frequently inspected by Hydro and are also subject to external inspections, including by the Norwegian Geotechnical Institute (NGI), latest in November 2015. When full, the tailing ponds need to settle before reforestation can start.

Bauxite residue is a by-product of the alumina refining process. Its disposal is challenging due to large volumes and the alkaline nature of the liquid component of the residue, and we use state of the art dry stacking technology. The residue is washed with water to lower the alkalinity and recover caustic soda for reuse. Hydro has started construction

of a new bauxite residue deposit at Alunorte including conversion to a more advanced pressure filtration technology that will further reduce moisture content resulting in lower deposited volumes and reducing our environmental impact in the long term. The project is expected to be completed in 2016. 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.

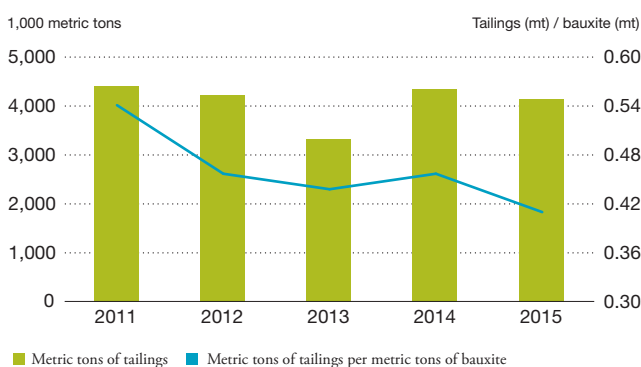
Spent potlining (SPL) from electrolytic cells used in primary aluminium production is defined as hazardous waste. We are working to find alternative use of SPL from our operations. Since 2012, we have delivered SPL and carbon waste from our Norwegian smelters to e.g. the cement industry.

An annual review of water use in 2015 revealed that 2.35 million m<sup>3</sup> 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.

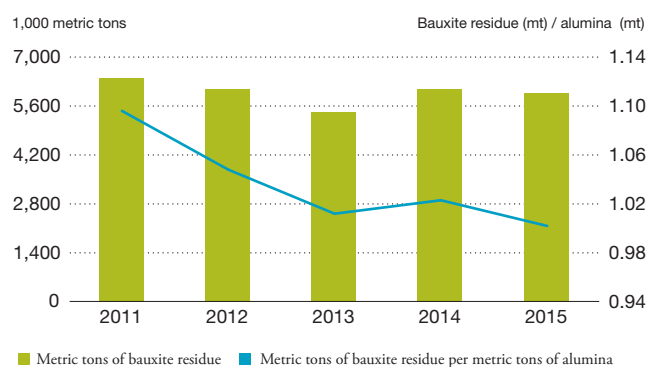
A review of the mercury balance at Alunorte was initiated in 2015. Further work will be made in 2016 including evaluating if any remediating actions will be needed.

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

## Tailings from bauxite production



## Bauxite residue from alumina production



a multi-stakeholder process to set standards to improve environmental, social and governance performance across the aluminium value chain.

## People

Our ambition is to avoid all serious accidents. Internal independent investigations are routinely initiated after fatal accidents and other serious incidents to identify the causes and reduce risk for recurrences. It is important that our employees enjoy good health, and feel safe and appreciated. Healthy and motivated employees perform better and are more creative, and in that way contribute to increased profitability and better results.

The number of high-risk incidents within Hydro's operations continued to fall in 2015, and Hydro's safety performance remains among the best in the industry. The company reduced its TRI rate (total recordable injuries per million hours worked) by 6 percent to 3.0, while for own employees and contractor employees combined we reduced the TRI rate by almost 12 percent. Although this was one of the best results in the company's history, it was not sufficient to meet the target for the year of 2.8, and one of Hydro's employees became a victim of the Germanwings' crash during business travel. More than half the injuries in 2015 were related to hands, about 16 percent legs, 14 percent arms and shoulders and about 6 percent related to the face, eyes and ears.

Our approach to improving safety performance is based on risk management, leadership qualities and shop floor engagement. An example is one company-wide, harmonized high-risk incident investigation and communication tool.

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 of these have established local targets and track the progress. The targets are tracked through a corporate reporting tool. In 2016, we will initiate a pilot in Rolled Products on further improving risk assessments of psychosocial work environment. The occupational illness rate in 2015 was 1.0 cases per million hours worked, down from 1.5 in 2014. Most of the reported cases are related to noise.

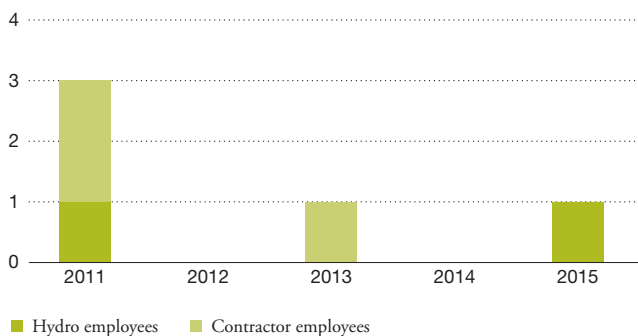
Sick leave in Hydro's global organization increased slightly from 3.8 percent in 2014 to 4.0 percent in 2015. In Norway, sick leave went down from 4.4 percent to 4.3 percent. The complete reduction was among women who still have a higher level than men, 4.9 percent compared to 4.2 percent.

Hydro had 13,263 permanent employees (including Slim that was divested at year-end) at the end of 2015, an increase from 12,922 in 2014. In addition, we had 1,144 temporary employees compared to 966 the year before. Contractor employees represented about 7,700 full-time equivalents during 2015, up from 6,600 in 2014. 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 to attract employees with the right competence. This means that Hydro is highly dedicated to attracting, developing and retaining competence to ensure our future success.

### Fatal accidents

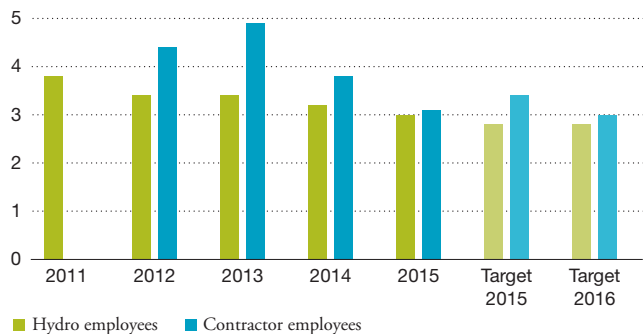
Number



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

### Total recordable injuries

Per million hours worked



\* Contractor data not available before 2012.

Hydro's People Strategy shall ensure that the most critical people areas to deliver our business strategy are addressed. It is built on five pillars: performance culture, competence management, leadership pipeline, diversity and mobility.

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. In 2015, 75 percent of employees had participated in My Way. Our ambition is that all employees should be included by the end of 2016.

Hydro Monitor is our global employee engagement process and is carried out for all employees every second year. Our strategic ambition is to be among the top 25 percent companies worldwide on the Employee Engagement Index (EEI, IBM External Norm) which is currently equivalent to 76 percent. Hydro scored 73 percent on the latest survey in 2014, in which 92 percent of all employees responded. The next survey is in 2016. The most important part of Hydro Monitor is follow-up. All units have action plans based on their survey results.

In order to have a healthy pipeline of leaders with the required breadth of experience, we emphasize 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 pipeline and identify required development.

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 2015, 13 percent of Hydro's employees globally were women, the same as in 2014. The share of women was 44 percent in Hydro's Corporate Management Board in 2015. With three women

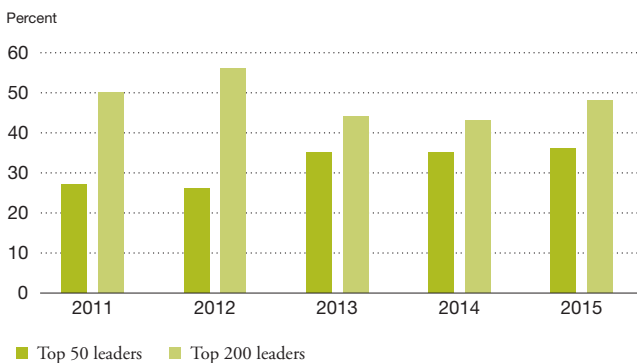
among the seven shareholder-elected members in the board of directors, Hydro complies with the Norwegian legal requirements on women representation. Hydro is making progress on the implementation of its diversity road maps and on integrating diversity in key people processes such as recruiting, leadership development, My Way and Hydro Monitor. Progress is being made towards the 2020 targets, although at a slower pace than we would like. We will therefore review the approach to diversity and run further diversity awareness trainings in 2016.

We are continually adjusting working conditions so that all employees, regardless of operability, have the same opportunities in their workplace. In Brazil, we are required to employ minimum 5 percent disabled people. The number of disabled employees in Paragominas was more than doubled in 2015 and reaching the requirement after a successful campaign. Alunorte had 3.4 percent disabled employees in 2015 and plans to reach the requirement in 2016.

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.

All employees shall receive a total salary that is fair, competitive and in accordance with the local industry standard. There are no significant gender-pay differentials for employees earning collectively negotiated wages in Norway and Germany. Salary conditions in the Norwegian organization are reviewed on a regular basis. If significant differences are found at any level, we have a tradition for closing the gaps within a short time. We have also checked if gender-related salary differences exist in our operations in Brazil in 2015. The review indicates that women and men have equal salary at manager level and above. At the operator and technician level, women's average salary is higher than

Share of non-Norwegian leaders



Share of women leaders



The total share of women at all levels in Hydro was 13 percent in 2015

men's salary. The reported differences are not directly comparable as age and detailed position category are not included in the evaluation.

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 KPIs. (See Note 8 and 9 to the consolidated financial statements for more information.)

The board of directors would like to emphasize the importance of the continuous improvement efforts implemented with stamina and determination by Hydro's employees over many years, and making visible impact also on the financial results. With the ability of transforming individual knowledge and experience into a systematic and lasting improvement culture, the Hydro workforce demonstrates its significance as Hydro's most valuable asset.

## 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 2015, external specialist gave the board of directors two deep-dives related to aluminium production in China and Qatar's internal affairs and foreign policy. The board of directors also visited Qatar and Qatalum.

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 2015, which in turn assessed the board's composition and competence.

The board of directors held 13 meetings in 2015 with an attendance of 96 percent. The compensation committee held seven meetings and the audit committee six meetings. There were no changes in board members during the year.



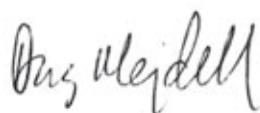
## Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had net income of NOK 2,379 million in 2015 compared with NOK 630 million in 2014.

For 2015, Hydro's Board of Directors proposes to pay a dividend of NOK 1 per share, demonstrating the company's commitment to provide a stable cash return to shareholders, and taking into account the uncertain market outlook. The proposed payment represents a 101 percent payout ratio for the year reflecting Hydro's operational performance for 2015 and strong financial position

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.

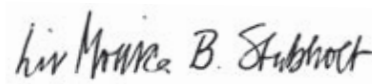
Oslo, March 10, 2016



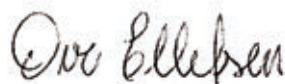
**DAG MEJDELL**  
Chair



**INGE K. HANSEN**  
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



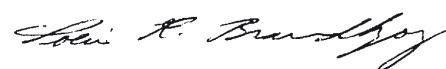
**EVA PERSSON**  
Board member



**PEDRO JOSÉ RODRIGUES**  
Board member



**IRENE RUMMELHOFF**  
Board member



**SVEIN RICHARD BRANDTZÆG**  
President and CEO

## Shareholder information

Hydro's share price closed at NOK 33.13 at the end of 2015. The return ex. dividend for 2015 was negative with NOK 9.3, or 21.9 percent. Hydro's Board of Directors proposes to pay a dividend of NOK 1 per share for 2015, for approval by the Annual General Meeting on May 2, 2016, demonstrating the company's commitment to provide a stable cash return to its shareholders, reflecting our strong financial position, and taking into account the uncertain market outlook.

There were 2,041,587,692 outstanding shares at the end of 2015. A total of 2.4 billion Hydro shares were traded on the Oslo Stock Exchange during 2015, representing 7.3 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 value created by Hydro. 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. Our policy is to pay out, on average, 40 percent of net income as ordinary dividend over the cycle to our shareholders. The policy was revised by Hydro's Board of Directors in 2015, from 30 percent to 40 percent of net income over the cycle. In setting the dividend for a specific year, we 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 give its shareholders 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.

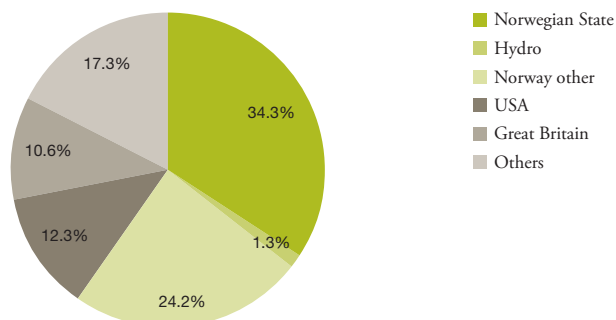
### Buyback of shares

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.

### Major shareholders and voting rights

An overview of Hydro's major shareholders as of December 31, 2015, is provided in note 14 in notes to the financial statements of Norsk Hydro ASA. In addition, further information is provided in the Shareholder information section in Hydro's Annual Report 2015.

### Geographical ownership distribution of shares



Source: Norwegian Central Securities Depository (VPS)

## Key figures for the Hydro share

	2015	2014	2013 <sup>1)</sup>	2012 <sup>2)</sup>	2011
Share price high, Oslo (NOK)	<b>47.68</b>	42.90	29.09	34.24	48.24
Share price low, Oslo (NOK)	<b>26.54</b>	26.87	23.86	23.40	23.96
Share price average, Oslo (NOK)	<b>35.58</b>	34.03	25.89	27.84	36.92
Share price year-end, Oslo (NOK)	<b>33.13</b>	42.44	27.07	27.88	27.74
Earnings per share (EPS) (NOK)	<b>0.99</b>	0.39	(0.45)	(0.65)	3.41
EPS from continuing operations (NOK) <sup>3)</sup>	<b>0.99</b>	0.39	(0.54)	(0.39)	3.41
Dividend per share (NOK) <sup>4)</sup>	<b>1.00</b>	1.00	0.75	0.75	0.75
Pay-out ratio <sup>5)</sup>	<b>101%</b>	256%	-	-	22%
Dividend growth	<b>0%</b>	33%	0%	0%	0%
Pay-out ratio five year average <sup>6)</sup>	<b>110%</b>	95%	86%	176%	77%
Adjusted debt/equity ratio <sup>7)</sup>	<b>0.20</b>	0.26	0.22	0.19	0.24
Credit rating, Standard & Poor's	<b>BBB</b>	BBB	BBB	BBB	BBB
Credit rating, Moody's	<b>Baa2</b>	Baa2	Baa2	Baa2	Baa2
Non-Norwegian ownership, year-end	<b>40%</b>	35%	33%	42%	44%
Outstanding shares, average	<b>2 041 000 645</b>	2 039 501 461	2 038 416 268	2 037 199 618	1 965 039 601
Outstanding shares, year-end	<b>2 041 587 692</b>	2 039 832 288	2 038 789 033	2 037 568 162	2 036 459 019

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) 2015 dividend per share proposed by Board of Directors, dependent on approval from the Annual General Meeting May 2, 2016.

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 40 to the Consolidated Financial Statements.

## Annual General Meeting

The Annual General Meeting will be held at the company's offices at Drammensveien 260, Oslo, Norway, on Monday, May 2, 2016, at 14:00 CET. Shareholders who wish to attend are asked to inform the registrar by 16:00 CET on Wednesday, April 27:

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](http://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 2016

April 27	First quarter results
May 2	Annual General Meeting
May 3	Shares traded ex-dividend
May 4	Record date for dividend
July 21	Second quarter results
October 25	Third quarter results
December 1 and 2	Capital Markets Day

## 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 F76.

### Payments to authorities per project and authority (exploration and extractive activities, and alumina refining) in 2015

Extractive related activities (all in Brazil) <sup>1)</sup>	Taxes and fees <sup>2)</sup>	Royalties	License fees <sup>3)</sup>	Infrastructure, contractual <sup>4)</sup>	Infrastructure, voluntary <sup>4)</sup>	Investments	Revenues <sup>5)</sup>	Production volume	Procurement in Brazil <sup>5) 6)</sup>
	kNOK	kNOK	kNOK	kNOK	kNOK	kNOK	kNOK	1000 mt	kNOK
<b>Mineracao Paragominas SA, total</b>	<b>222 476</b>	<b>79 686</b>	<b>1 727</b>	<b>3 434</b>	<b>13</b>	<b>345 038</b>	<b>2 815 648</b>	<b>10 060</b>	<b>1 888 826</b>
Federal	169 824	9 562	1 727						
Pará State	52 651	18 328	-						
Paragominas municipality	-	51 796	-						
<b>Norsk Hydro Brasil Ltda, total</b>	<b>-</b>	<b>-</b>	<b>2 269</b>	<b>-</b>	<b>648</b>	<b>6 426</b>	<b>125 690</b>	<b>-</b>	<b>207 099</b>
Federal	-	-	2 269						
Rio de Janeiro State	-	-	-						
São Paulo Municipality	-	-	-						
<b>Alunorte - Alumina do Norte do Brasil SA, total</b>	<b>116 505</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 672</b>	<b>1 665 486</b>	<b>14 686 687</b>	<b>5 962</b>	<b>10 108 919</b>
Federal	116 505	-	-						
Pará State	-	-	-						
Barcarena Municipality	-	-	-						
<b>Total</b>	<b>338 980</b>	<b>79 686</b>	<b>3 996</b>	<b>3 434</b>	<b>3 333</b>	<b>2 016 950</b>	<b>17 628 024</b>	<b>16 022</b>	<b>12 204 844</b>

1) In 2015, 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. Please note that sales taxes were unintentionally included in the country by country report in Hydro's Annual Report 2014. The 2015 tax payments are therefore not directly comparable to the figures reported for 2014.

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 2015.

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 <sup>3)</sup>	Number of temporary employees <sup>3)</sup>	Interest paid to Hydro legal entities in another jurisdiction, in kNOK
Australia	Hydro Aluminium Australia Pty. Limited	100 %	1	-	15
	Hydro Aluminium Kurri Kurri Pty. Limited	100 %	10	-	-
<b>Total Australia</b>			<b>11</b>	<b>-</b>	<b>15</b>
Belgium	Norsk Hydro EU Sprl	100 %	1	1	-
	Hydro Aluminium Belgium BVBA	100 %	-	-	-
<b>Total Belgium</b>			<b>1</b>	<b>1</b>	<b>-</b>
Brazil	Norsk Hydro Brasil Ltda.	100 %	233	30	-
	Mineração Paragominas SA	86.4 %	1 441	74	-
	Ananke Alumina SA	100 %	-	-	-
	ALNORTE - Alumina do Norte do Brasil S. A. <sup>1)</sup>	92.1 %	1 956	80	25 212
	Atlas Alumínio SA	100 %	-	-	-
	ALBRAS - Alumínio Brasileiro SA	51 %	1 187	124	-
	Calypso Alumina SA	100 %	-	-	-
	CAP - Companhia de Alumina do Pará SA	81 %	-	-	-
	Norsk Hydro Energia Ltda.	100 %	-	-	-
	Oncelote Participações Ltda.	Liquidated	-	-	-
<b>Total Brazil</b>			<b>4 817</b>	<b>308</b>	<b>25 212</b>
Canada	Hydro Aluminium Canada Inc.	100 %	-	-	-
	Hydro Aluminium Canada & Co. Ltd.	100 %	3	-	16
<b>Total Canada</b>			<b>3</b>	<b>-</b>	<b>16</b>
China	Hydro Aluminium Beijing Ltd.	100 %	9	-	-
<b>Total China</b>			<b>9</b>	<b>-</b>	<b>-</b>
Denmark	Hydro Aluminium Rolled Products Denmark A/S	100 %	2	-	-
<b>Total Denmark</b>			<b>2</b>	<b>-</b>	<b>-</b>
France	Extrusion Services S.a.r.l	100 %	42	-	233
	Hydro Aluminium Sales and Trading s.n.c.	100 %	8	1	-
	Hydro Aluminium France S.A.S.	100 %	3	-	-
<b>Total France</b>			<b>53</b>	<b>1</b>	<b>233</b>
Germany	Norsk Hydro Deutschland GmbH & Co. KG	100 %	-	-	-
	Norsk Hydro Deutschland Verwaltungs GmbH	100 %	-	-	-
	Hydro Aluminium Deutschland GmbH	100 %	63	3	-
	Hydro Aluminium Rolled Products GmbH	100 %	3 219	256	-
	Hydro Aluminium Dormagen GmbH	100 %	24	9	-
	Hydro Aluminium Gießerei Rackwitz GmbH	100 %	54	7	-
	Hydro Energy GmbH	100 %	-	-	-
	Hydro Aluminium High Purity GmbH	100 %	59	3	-
	VAW-Innwerk Unterstützungs-Gesellschaft GmbH	77.5 %	-	-	-
	Hydro Aluminium Recycling Deutschland GmbH	100 %	29	-	-
	Standort-Entwicklungs-Gesellschaft Nabwerk mbH	100 %	-	-	-
<b>Total Germany</b>			<b>3 448</b>	<b>278</b>	<b>-</b>
Italy	Hydro Aluminium Slim S.p.A. <sup>2)</sup>	0 %	-	-	4 357
	Hydro Aluminium Metal Products S.r.l.	100 %	3	-	-
<b>Total Italy</b>			<b>3</b>	<b>-</b>	<b>4 357</b>
Japan	Hydro Aluminium Japan KK	100 %	9	-	2
<b>Total Japan</b>			<b>9</b>	<b>-</b>	<b>2</b>
Luxembourg	Hydro Aluminium Clervaux S.A.	100 %	55	2	1 135
<b>Total Luxembourg</b>			<b>55</b>	<b>2</b>	<b>1 135</b>
Netherlands	Norsk Hydro Holland B.V.	100 %	4	-	-
	Hydro Alunorte B.V.	100 %	-	-	-
	Hydro Albras B.V.	100 %	-	-	-
	Hydro CAP B.V.	100 %	-	-	1
	Hydro Aluminium Pará B.V.	100 %	-	-	-
	Hydro Paragominas B.V.	100 %	-	-	-
	Hydro Aluminium Qatalum Holding B.V.	100 %	-	-	-

Jurisdiction	Legal entity	Ownership 31.12	Number of permanent employees <sup>3)</sup>	Number of temporary employees <sup>3)</sup>	Interest paid to Hydro legal entities in another jurisdiction, in kNOK
	Hydro Aluminium Investment B.V.	100 %	-	-	-
	Hydro Aluminium Netherlands B.V.	100 %	-	-	-
	Hydro Aluminium Brasil Investment B.V.	100 %	-	-	-
	Hydro Aluminium Rolled Products Benelux B.V.	100 %	3	-	-
<b>Total Netherlands</b>			<b>7</b>	<b>-</b>	<b>1</b>
Norway	Norsk Hydro ASA	-	220	13	-
	Hydro Aluminium AS	100 %	2 287	404	-
	Hydro Invest Porsgrunn AS	100 %	-	-	-
	Hydro Aluminium Rolled Products AS	100 %	620	41	-
	Hycast AS	100 %	44	4	-
	Sør-Norge Aluminium AS	100 %	242	64	-
	Vækerø Gård Barnehage ANS	100 %	-	-	-
	Industriforsikring AS	100 %	9	-	-
	Hydro Magnesium Porsgrunn AS	Liquidated	N/A	N/A	-
	Hydro Energi AS (previously Norsk Hydro Produksjon AS)	100 %	178	13	-
	Svælgfos AS	100 %	-	-	-
	Hydro Vigelands Brug AS	100 %	35	1	-
	Røldal-Suldal Kraft AS	91.3 %	-	-	-
	Hydro Kapitalforvaltning AS	100 %	4	-	-
	Grenland Industriutvikling AS	Liquidated	N/A	N/A	-
	Norsk Hydro Plastic Pipe AS	100 %	-	-	-
	Herøya Nett AS	100 %	31	2	-
	Herøya Industripark AS	100 %	17	-	-
<b>Total Norway</b>			<b>3 687</b>	<b>542</b>	<b>-</b>
Poland	Hydro Aluminium Rolled Products Polska Sp. z o.o.	100 %	4	-	-
<b>Total Poland</b>			<b>4</b>	<b>-</b>	<b>-</b>
Singapore	Hydro Aluminium Asia Pte. Ltd	100 %	14	-	1
	Hydro Aluminium Asia Rolled Products Pte. Ltd.	100 %	3	-	-
<b>Total Singapore</b>			<b>17</b>	<b>-</b>	<b>1</b>
Slovakia	Slovalco a.s.	55.3 %	501	-	-
	ZSNP DA, s.r.o.	55.3 %	-	-	-
<b>Total Slovakia</b>			<b>501</b>	<b>-</b>	<b>-</b>
Spain	Hydro Aluminium Iberia S.A (former Norsk Hydro Espana SA)	100 %	45	4	112
	Hydro Aluminium Rolled Products Iberia S.L.	100 %	4	1	-
<b>Total Spain</b>			<b>49</b>	<b>5</b>	<b>112</b>
Sweden	Hydro Aluminium Sverige AB	100 %	3	-	-
<b>Total Sweden</b>			<b>3</b>	<b>-</b>	<b>-</b>
Switzerland	Hydro Aluminium International SA <sup>1)</sup>	100 %	7	-	22 508
	Hydro Aluminium Walzprodukte AG	100 %	2	-	-
<b>Total Switzerland</b>			<b>9</b>	<b>-</b>	<b>22 508</b>
United Kingdom	Hydro Aluminium Deeside Ltd.	100 %	42	-	17
	Norsk Hydro Employee Trust Ltd.	100 %	-	-	-
	Hydro Motorcast Leeds (Property) Ltd.	100 %	-	-	276
	Hydro Aluminium Rolled Products Ltd.	100 %	6	-	96
<b>Total UK</b>			<b>48</b>	<b>-</b>	<b>390</b>
USA	Norsk Hydro North America, Inc.	100 %	-	-	78
	Hydro Aluminum Metals USA, LLC	100 %	128	3	-
	Hydro Aluminum USA, Inc.	100 %	6	-	-
	Hydro Aluminum Tomago Inc.	100 %	-	-	-
<b>Total USA</b>			<b>134</b>	<b>3</b>	<b>78</b>
<b>Grand total</b>			<b>12 870</b>	<b>1 144</b>	<b>54 060</b>

1) Interest paid from Alumina do Norte do Brasil S.A., Hydro Aluminium Slim S.p.A and Hydro Aluminium International SA relates to interest on loans and credit facilities in Norsk Hydro ASA.

2) Entity sold during 2015

3) Number of employees is based on the legal entity each employee is employed by. Grand totals exclude employees at Slim since the entity was divested 31.12.2015.

## 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 2015.

All page numbers and notes to the financial statements refer to this report. All other references can be found at [www.hydro.com/governance](http://www.hydro.com/governance)

### 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 10 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 34.3 percent of the Hydro shares (as of 31.12.2015) 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](http://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 50 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](http://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, latest revised in February 2015, is to pay out an average of 40 percent of net income over the business cycle.

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 26.

### 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 2015 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, 2015 the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owned 34.3 percent of Hydro's issued shares. Hydro holds regular meetings with the Ministry, where topics discussed include Hydro's economic and strategic development, corporate social responsibility, and the Norwegian State's expectations regarding results and returns on investments. These meetings are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in Norwegian company and securities legislation, not least with respect to equal treatment of shareholders. As a shareholder, the Norwegian state does not usually have access to more information than what is available to other shareholders. If state participation is imperative and the government must seek approval from the Norwegian parliament (Stortinget), it may be necessary to provide the Ministry with insider information. In such cases, the state is subject to the general rules that apply to the handling of such information.

*References:* Learn more about the Hydro share at page 26 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](http://www.hydro.com/principles). Hydro's articles of association can be found on [www.hydro.com/governance](http://www.hydro.com/governance). Learn more about major shareholders at page 27 and 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, 2015 the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owned 34.3 percent of Hydro's shares, while the Government Pension Fund Norway owned 6.2 percent. Shareholding is based on information from the Norwegian Central Securities Depository (VPS) as of December 31, 2015. 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 26.

## 6. General meeting of shareholders

Notice of a general meeting of shareholders with supporting information is normally published on [www.hydro.com](http://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](http://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](http://www.hydro.com/investor)

*Deviations:* See page 31.

## 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](http://www.hydro.com/governance). More information about Hydro's nomination committee can be found at the same site. Nominations can be submitted electronically, also from [www.hydro.com/governance](http://www.hydro.com/governance)

*Deviations:* See page 31.

## 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 Jose Rodrigues, who was global director of Mergers and Acquisitions in Vale S.A. until July 2015 and is currently a consultant to Vale S.A., is a member of the board of directors. Until November 2013 Vale possessed 22 percent of Hydro's issued shares. Vale is also 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. Inge K. Hansen abstained himself from discussions related to certain power contracts due to his relationship with Troms Kraft. Liv Monica Stubholt is since 1 September 2015 a partner of Advokatfirmaet Selmer ANS. Selmer invoiced services to Hydro in 2015 with a legal fee of 6.6 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, 2015, seven of the board's directors own a total of 121,940 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; see page 27. 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 can be found at [www.hydro.com/governance](http://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 shareholder-elected and one employee-elected board member. 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 page 24. Information about the board of directors and its committees, the board members' competence and the board mandate can be found at [www.hydro.com/governance](http://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](http://www.hydro.com/governance)

*References:* A review of Hydro's main risks can be found at page 14.

## 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](http://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](http://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](http://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:* Learn more on page 19. A financial calendar is available on page 27 and at [www.hydro.com/investor](http://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](http://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 page 31.

#### 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 in note 45 (Auditor's remuneration) to the consolidated financial statements.

Revenue 2015

NOK MILLION

87,694

07: *Financial  
statements*

CONSOLIDATED FINANCIAL STATEMENTS	F2		
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	F7		
NOTE 1 REPORTING ENTITY AND BASIS OF PRESENTATION	F7		
NOTE 2 SIGNIFICANT ACCOUNTING POLICIES	F7		
NOTE 3 CHANGES IN ACCOUNTING PRINCIPLES AND NEW PRONOUNCEMENTS	F15		
NOTE 4 MEASUREMENT OF FAIR VALUE	F15		
NOTE 5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY	F16		
NOTE 6 SIGNIFICANT SUBSIDIARIES AND CHANGES TO THE CONSOLIDATED GROUP	F18		
NOTE 7 OPERATING AND GEOGRAPHIC SEGMENT INFORMATION	F19		
NOTE 8 BOARD OF DIRECTORS' STATEMENT ON EXECUTIVE MANAGEMENT REMUNERATION	F23		
NOTE 9 MANAGEMENT REMUNERATION	F26		
NOTE 10 BOARD OF DIRECTORS AND CORPORATE ASSEMBLY	F27		
NOTE 11 RELATED PARTY INFORMATION	F29		
NOTE 12 FINANCIAL AND COMMERCIAL RISK MANAGEMENT	F30		
NOTE 13 FINANCIAL INSTRUMENTS	F33		
NOTE 14 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING	F37		
NOTE 15 OTHER INCOME	F39		
NOTE 16 RAW MATERIAL AND ENERGY EXPENSE	F39		
NOTE 17 EMPLOYEE REMUNERATION	F39		
NOTE 18 DEPRECIATION AND AMORTIZATION EXPENSE	F40		
NOTE 19 IMPAIRMENT OF NON-CURRENT ASSETS	F41		
NOTE 20 RESEARCH AND DEVELOPMENT	F43		
NOTE 21 OPERATING LEASES	F43		
NOTE 22 FINANCIAL INCOME AND EXPENSE	F43		
NOTE 23 INCOME TAXES	F44		
NOTE 24 SHORT-TERM INVESTMENTS	F45		
NOTE 25 TRADE AND OTHER RECEIVABLES	F46		
		NOTE 26 INVENTORIES	F46
		NOTE 27 OTHER NON-CURRENT ASSETS	F46
		NOTE 28 PROPERTY, PLANT AND EQUIPMENT	F47
		NOTE 29 INTANGIBLE ASSETS	F48
		NOTE 30 GOODWILL	F48
		NOTE 31 INVESTMENTS IN JOINT ARRANGEMENTS	F49
		NOTE 32 INVESTMENTS IN ASSOCIATES	F51
		NOTE 33 BANK LOANS AND OTHER INTEREST-BEARING SHORT-TERM DEBT	F51
		NOTE 34 TRADE AND OTHER PAYABLES	F51
		NOTE 35 LONG-TERM DEBT	F52
		NOTE 36 PROVISIONS	F52
		NOTE 37 CONTINGENT LIABILITIES AND CONTINGENT ASSETS	F53
		NOTE 38 EMPLOYEE RETIREMENT PLANS	F54
		NOTE 39 SHAREHOLDERS' EQUITY	F58
		NOTE 40 CAPITAL MANAGEMENT	F59
		NOTE 41 DIVIDENDS	F61
		NOTE 42 GUARANTEES	F62
		NOTE 43 CONTRACTUAL COMMITMENTS AND OTHER COMMITMENTS FOR FUTURE INVESTMENTS	F62
		NOTE 44 CASH FLOW INFORMATION	F63
		NOTE 45 AUDITOR'S REMUNERATION	F63
		FINANCIAL STATEMENTS NORSK HYDRO ASA	F64
		NOTES TO THE FINANCIAL STATEMENTS NORSK HYDRO ASA	F67
		RESPONSIBILITY STATEMENT	F76
		AUDITOR'S REPORT	F77
		STATEMENT OF THE CORPORATE ASSEMBLY	F79

## Consolidated financial statements

### Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended December 31	Notes	2015	2014
Revenue	7	<b>87 694</b>	77 907
Share of the profit (loss) in equity accounted investments	7, 31, 32	<b>512</b>	415
Other income, net	15	<b>461</b>	751
<b>Total revenue and income</b>		<b>88 667</b>	79 073
Raw material and energy expense	16	<b>56 330</b>	51 480
Employee benefit expense	17	<b>9 048</b>	8 089
Depreciation and amortization expense	18	<b>5 024</b>	4 565
Impairment of non-current assets	19	<b>(1)</b>	206
Other	20, 21	<b>10 008</b>	9 059
<b>Total expenses</b>		<b>80 409</b>	73 399
<b>Earnings before financial items and tax</b>	7	<b>8 258</b>	5 674
Financial income	22	<b>297</b>	347
Financial expense	22	<b>(5 130)</b>	(3 900)
<b>Financial income (expense), net</b>		<b>(4 834)</b>	(3 554)
<b>Income before tax</b>		<b>3 425</b>	2 121
<b>Income taxes</b>	23	<b>(1 092)</b>	(892)
<b>Net income</b>		<b>2 333</b>	1 228
Net income attributable to non-controlling interests		<b>313</b>	432
Net income attributable to Hydro shareholders		<b>2 020</b>	797
<b>Basic and diluted earnings per share attributable to Hydro shareholders</b>	39	<b>0.99</b>	0.39

*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	2015	2014
Net income		2 333	1 228
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to income statement</b>			
Remeasurement postemployment benefits, net of tax	39	764	(2 340)
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	39	126	(150)
<b>Total</b>		<b>890</b>	<b>(2 490)</b>
<b>Items that will be reclassified to income statement</b>			
Currency translation differences, net of tax	39	(2 130)	7 004
Unrealized gain on securities, net of tax	39	15	90
Cash flow hedges, net of tax	39	72	9
Share of other comprehensive income that will be recycled to income statement in equity accounted investments, net of tax	39	502	666
<b>Total</b>		<b>(1 541)</b>	<b>7 769</b>
<b>Other comprehensive income</b>		<b>(651)</b>	<b>5 279</b>
<b>Total comprehensive income</b>		<b>1 681</b>	<b>6 507</b>
Total comprehensive income attributable to non-controlling interests		(418)	959
<b>Total comprehensive income attributable to Hydro shareholders</b>		<b>2 099</b>	<b>5 548</b>

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

## Consolidated balance sheets

Amounts in NOK million, December 31	Notes	2015	2014
<b>Assets</b>			
Cash and cash equivalents		6 917	9 253
Short-term investments	24	5 752	1 786
Trade and other receivables	25	10 797	11 703
Inventories	26	12 192	12 642
Other current financial assets	13	502	543
<b>Total current assets</b>		<b>36 160</b>	<b>35 927</b>
Property, plant and equipment	28	51 174	55 719
Intangible assets	29, 30	5 121	5 947
Investments accounted for using the equity method	31, 32	20 150	18 095
Other non-current assets	13, 25	4 614	6 227
Prepaid pension	38	3 382	2 881
Deferred tax assets	23	1 943	1 476
<b>Total non-current assets</b>		<b>86 384</b>	<b>90 345</b>
<b>Total assets</b>	7	<b>122 544</b>	<b>126 273</b>
<b>Liabilities and equity</b>			
Bank loans and other interest-bearing short-term debt	33	3 562	6 039
Trade and other payables	34	9 375	9 663
Provisions	36	1 147	1 125
Taxes payable		1 338	1 884
Other current financial liabilities	13	1 977	406
<b>Total current liabilities</b>		<b>17 399</b>	<b>19 116</b>
Long-term debt	35	3 969	5 128
Provisions	36	3 264	3 993
Pension liabilities	38	12 782	12 796
Other non-current financial liabilities	13	2 169	2 780
Other liabilities		1 632	842
Deferred tax liabilities	23	1 999	1 676
<b>Total non-current liabilities</b>		<b>25 816</b>	<b>27 215</b>
<b>Total liabilities</b>		<b>43 215</b>	<b>46 332</b>
Share capital	39	2 272	2 272
Additional paid-in capital	39	29 068	29 045
Treasury shares	39	(913)	(972)
Retained earnings		45 850	45 872
Other components of equity	39	(2 107)	(2 187)
<b>Equity attributable to Hydro shareholders</b>		<b>74 169</b>	<b>74 030</b>
<b>Non-controlling interests</b>		<b>5 159</b>	<b>5 911</b>
<b>Total equity</b>		<b>79 329</b>	<b>79 941</b>
<b>Total liabilities and equity</b>		<b>122 544</b>	<b>126 273</b>

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	2015	2014
<b>Operating activities</b>			
Net income		2 333	1 228
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment	7, 18, 19	5 023	4 771
Share of profit in equity accounted investments	7, 31, 32	(512)	(415)
Dividends received from equity accounted investments	31, 32	1 037	942
Deferred taxes		(321)	(713)
Loss (gain) on sale of non-current assets		422	(44)
Net foreign exchange loss	22	4 397	3 161
Net sales (purchases) of trading securities		31	(33)
Capitalized interest	22	(34)	(3)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		3 108	(561)
Inventories		53	(1 451)
Trade and other payables		(833)	(184)
Commodity derivatives		(71)	(313)
Other items		(260)	(420)
Net cash provided by continuing operating activities	44	14 373	5 965
<b>Investing activities</b>			
Purchases of property, plant and equipment		(5 254)	(3 294)
Purchases of other long-term investments	44	(212)	166
Purchases of short-term investments		(5 050)	(1 500)
Proceeds from long-term investing activities		125	103
Proceeds from sales of short-term investments		1 000	2 250
Net cash used in continuing investing activities		(9 391)	(2 275)
<b>Financing activities</b>			
Loan proceeds		2 340	6 880
Principal repayments		(7 042)	(8 226)
Net increase (decrease) in other short-term debt		(344)	170
Proceeds from shares issued		35	21
Dividends paid		(2 370)	(1 943)
Net cash used in continuing financing activities		(7 381)	(3 098)
Foreign currency effects on cash and bank overdraft		68	387
Net cash used in discontinued operations	6	-	(139)
Net increase (decrease) in cash, cash equivalents and bank overdraft		(2 331)	840
Cash, cash equivalents and bank overdraft at beginning of year		9 248	8 408
Cash, cash equivalents and bank overdraft at end of year	44	6 917	9 248

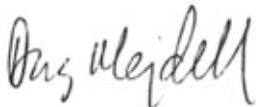
The accompanying notes are an integral part of the consolidated financial statements.

## 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, 2013		2 272	29 049	(1 006)	46 617	(6 950)	69 981	5 283	75 264
Treasury shares reissued to employees	39		(4)	35			31		31
Dividends	41				(1 530)		(1 530)	(331)	(1 861)
Items not reclassified to income statement in subsidiaries sold/liquidated					(12)	12	-		-
Total comprehensive income for the year					797	4 751	5 548	959	6 507
December 31, 2014		2 272	29 045	(972)	45 872	(2 187)	74 030	5 911	79 941
Treasury shares reissued to employees	39		24	58			82		82
Dividends	41				(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

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

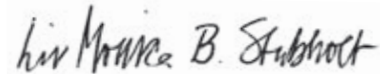
Oslo, March 10, 2016




**DAG MEJDELL**  
Chair



**INGE K. HANSEN**  
Deputy chair



**LIV MONICA BARGEM STUBBHOLT**  
Board member



**OVE ELLEFSEN**  
Board member



**BILLY FREDAGSVIK**  
Board member



**FINN JEBSEN**  
Board member



**STEN ROAR MARTINSEN**  
Board member



**EVA PERSSON**  
Board member



**PEDRO JOSÉ RODRIGUES**  
Board member



**IRENE RUMMELHOFF**  
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 10, 2016. 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 statement 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, 2015. Hydro also provides the disclosure as specified under the Norwegian Accounting Law (Regnskapsloven).

The following description of accounting principles applies to Hydro's 2015 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, previously referred to as minority interest, 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 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 to 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 to sell 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. For multiple delivery contracts, revenue is allocated to deliveries in line with contract terms, normally either fixed price per unit or price referred to observable market prices at either pricing date or delivery date. 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. To the extent a transaction consists of multiple elements, the transaction is analyzed into the separately identifiable components for revenue recognition.

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. 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 when 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 fair value of the asset retirement obligation upon initial recognition of the liability. Hydro uses the cost model for 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 if the fair 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<sub>2</sub> 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<sub>2</sub> 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<sub>2</sub> 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
- Intangibles 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 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 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. See also the accounting policy discussion for Asset retirement obligations.

### Exit and disposal activity 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 reserve 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.

### 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. Non-current financial assets include long-term derivative instruments, other investments, long-term loans to employees, long-term bank deposits, restricted cash and other long-term receivables. 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.

#### *Accounts receivable*

Accounts 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 delayed payments and other indicators of financial difficulty as well as prior collection experience, local economic conditions 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 assets 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.

### 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

### Changes in accounting principles

Hydro implemented IFRIC 21 Levies as of January 1, 2015 impacting how certain levies and indirect taxes are allocated between interim periods, with a limited impact to results. The change did not impact the annual period.

### New pronouncements

As of the date of authorization of these financial statements, the following standards, amendments and interpretations 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, these standards were not endorsed by the EU.

Hydro is in the process of evaluating the potential accounting impact of IFRS 9, IFRS 15 and IFRS 16. Preliminary assessment of IFRS 9 and IFRS 15 has not indicated any significant changes in timing of recognition or how to measure revenue, cost, assets or liabilities. 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 will qualify for hedge accounting. It has not been decided whether Hydro will utilize these additional possibilities. 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.

## 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 asset or asset group 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 to sell, 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 or cash flows for the purpose of impairment tests, however, cash flows are generally increased by expected inflation and market recovery towards previously observed volumes is considered. 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.

## 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 involve 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, 2015 was 2.6 percent (2014: 2.25 percent). The discount rate is based on the yield on covered bonds<sup>1)</sup> 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 38 Employee retirement plans.

## 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.

## 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*

Environmental liabilities and asset retirement obligations require interpretation of scientific and legal data, in addition to assumptions about probability and future costs. A discussion of Hydro's major contingencies is included in note 37 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. 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 direct tax payments, for which the value depends 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.

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 there are also legal restrictions in our ability to integrate cash holdings in subsidiaries in the group's cash pool. There are non-controlling interests in some subsidiaries. The more significant ones are described below.

#### *Albras*

Hydro holds 51 percent of the shares in the Brazilian aluminium smelter Alumínio Brasileiro S.A. (Albras), which is part of Primary Metal. The non-controlling owner has significant influence on certain decisions in the entity, including operational and investment budgets. The non-controlling interests in Albras amounted to NOK 2,683 million as of December 31, 2015, and NOK 3,332 million as of December 31, 2014. 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 in proportion to ownership interest at a price based on prevailing aluminium prices at the London Metal Exchange and product premiums.

#### *Slovalco*

Hydro holds 55 percent of the total shares and 60 percent of the voting interest in the Slovak smelter Slovalco a.s, which is part of Primary Metal. The non-controlling owner has significant influence on certain decisions in the entity, including operational and investment budgets. The non-controlling interests in Slovalco amounted to NOK 1,247 million as of December 31, 2015, and NOK 1,064 million as of December 31, 2014. 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 1,084 million as of December 31, 2015, and NOK 1,326 million as of December 31, 2014. 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 at a price based on prevailing aluminium prices at the London Metal Exchange, with a fixed minimum and maximum price introduced in June 2014.

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	
	2015	2014
Internal revenue	3 842	3 440
External revenue	2 787	3 310
Earnings before financial items and tax	702	1 391
Net income	354	851
Other comprehensive income	(1 339)	479
Total comprehensive income	(985)	1 330
Net cash flows from operating activities	1 041	1 817
Net cash flows from investing activities	(373)	(377)
Net cash flows from financing activities	(1 371)	(356)
Cash and cash equivalents	111	743
Other current assets	1 506	1 617
Non-current assets	5 539	6 897
Current liabilities	1 020	1 545
Non-current liabilities	664	914
Equity attributable to Hydro	2 790	3 465
Equity attributable to minority interests	2 683	3 332
Share of net income attributable to non-controlling interest	167	417
Dividends paid to non-controlling interests	166	135

### Discontinued operations and Assets held for sale

On September 1, 2013, Hydro and the Norwegian industrial group Orkla established the 50/50 joint venture Sapa. Hydro contributed its Extruded Products activities while Orkla contributed its similar businesses. Hydro delivered certain services to Sapa in a transition period, and continues to deliver metal products to Sapa at market prices.

The Extruded Products business was reported as Assets held for sale and Discontinued operations. Cash flows from discontinued operations are presented separately, and included a settlement of adjusting items to the agreed contribution in 2014.

There were no significant changes to the group during 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.

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. 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.

Other consist of Hydro's captive insurance company Industriforsikring, its industry parks, internal service providers, Hydro's investment in Sapa and certain other activities.

### Operating segment information

Hydro uses two measures of segment results, Earnings before financial items and tax - EBIT and EBITDA. EBIT is consistent with the same measure for the group, considering the principles for measuring certain intersegment transactions and contracts described below. Hydro defines EBITDA as Income (loss) before tax, financial income and expense, depreciation, amortization and write-downs, including amortization and impairment of excess values in equity accounted investments. Hydro's definition of EBITDA may be different from other companies.

Because Hydro manages long-term debt and taxes on a Group basis, Net income is presented only for the Group as a whole.

Intersegment sales and transfers reflect arm's length prices as if sold or transferred to third parties at the time of inception of the internal contract, which may cover several years. Transfers of businesses or fixed assets within or between Hydro's segments are reported without recognizing gains or losses. Results of activities not considered part of Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported together with Other under the caption Other and eliminations.

The accounting policies used for segment reporting reflect those used for the Group. The following exceptions apply for intersegment transactions: Internal commodity contracts may meet the definition of a financial instrument in IAS 39 or contain embedded derivatives that are required to be reported separately and valued at fair value under IAS 39. However, Hydro considers these contracts as sourcing of raw materials or sale of own production, and accounts for such contracts as executory contracts. Certain other internal contracts may contain lease arrangements that qualify as a finance lease. However, the segment reporting reflects the responsibility allocated by Hydro's management for those assets. Costs related to certain pension schemes covering more than one segment are allocated to the operating segments based either on the premium charged or the estimated service cost. Any difference between these charges and pension expenses measured in accordance with IFRS, as well as pension assets and liabilities are included in Other and eliminations.

The following tables include information about Hydro's operating segments.



Amounts in NOK million	External revenue		Internal revenue		Share of the profit (loss) in equity accounted investments	
	2015	2014	2015	2014	2015	2014
Bauxite & Alumina	13 534	9 568	8 356	6 279	-	-
Primary Metal	5 373	6 397	26 967	21 667	389	728
Metal Markets	42 795	37 981	4 114	5 048	-	-
Rolled Products	24 293	21 345	(132)	109	-	-
Energy	1 623	2 492	3 703	3 810	-	-
Other and eliminations	77	124	(43 008)	(36 914)	123	(313)
<b>Total</b>	<b>87 694</b>	<b>77 907</b>	<b>-</b>	<b>-</b>	<b>512</b>	<b>415</b>

Amounts in NOK million	Depreciation, amortization and impairment		Earnings before financial items and tax (EBIT) <sup>1)</sup>		EBITDA	
	2015	2014	2015	2014	2015	2014
Bauxite & Alumina	1 983	1 802	2 411	(39)	4 393	1 763
Primary Metal	1 952	1 794	4 459	3 928	6 411	5 736
Metal Markets	101	112	180	717	281	829
Rolled Products <sup>2)</sup>	732	845	154	1 121	886	1 966
Energy	195	162	1 103	1 193	1 297	1 355
Other and eliminations	61	55	(48)	(1 245)	14	(1 190)
<b>Total</b>	<b>5 023</b>	<b>4 771</b>	<b>8 258</b>	<b>5 674</b>	<b>13 282</b>	<b>10 460</b>

Amounts in NOK million	Non-current assets		Total assets <sup>3)</sup>		Investments <sup>4)</sup>	
	2015	2014	2015	2014	2015	2014
Bauxite & Alumina	31 171	39 386	36 640	44 752	1 923	701
Primary Metal	29 740	29 051	38 988	39 168	1 839	1 606
Metal Markets	1 401	1 159	7 354	8 410	280	95
Rolled Products	7 856	6 834	16 120	15 770	1 434	783
Energy	5 395	5 328	6 464	6 308	290	364
Other and eliminations	10 821	8 588	16 978	11 865	99	76
<b>Total</b>	<b>86 384</b>	<b>90 345</b>	<b>122 544</b>	<b>126 273</b>	<b>5 865</b>	<b>3 625</b>

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, long-lived assets and investments is based on location of operation. Included in long-lived assets are investments in equity accounted investments; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

Amounts in NOK million	Revenue		Non-current assets		Investments <sup>4)</sup>	
	2015	2014	2015	2014	2015	2014
Norway	<b>2 310</b>	4 142	<b>24 901</b>	23 514	<b>1 678</b>	1 363
Germany	<b>13 854</b>	12 655	<b>8 062</b>	6 657	<b>1 475</b>	731
Great Britain	<b>3 723</b>	5 272	<b>114</b>	97	<b>5</b>	11
Spain	<b>3 639</b>	2 791	<b>155</b>	127	<b>7</b>	4
Italy	<b>3 543</b>	2 974	-	117	<b>18</b>	18
France	<b>2 885</b>	2 664	<b>40</b>	39	<b>5</b>	6
Poland	<b>2 843</b>	2 491	-	-	-	-
The Netherlands	<b>1 933</b>	1 621	<b>924</b>	948	<b>17</b>	70
Austria	<b>1 866</b>	1 490	-	-	-	-
Denmark	<b>1 597</b>	1 346	-	-	-	-
Belgium	<b>1 212</b>	1 029	-	-	-	-
Slovakia	<b>522</b>	657	<b>1 277</b>	1 140	<b>105</b>	90
Other	<b>4 238</b>	3 340	<b>144</b>	86	<b>62</b>	15
<b>Total EU</b>	<b>41 854</b>	38 330	<b>10 717</b>	9 211	<b>1 695</b>	944
Switzerland	<b>4 372</b>	3 505	<b>281</b>	183	<b>2</b>	-
Turkey	<b>1 872</b>	1 891	-	-	-	-
Other Europe	<b>1 000</b>	788	-	-	-	-
<b>Total Europe</b>	<b>51 407</b>	48 656	<b>35 899</b>	32 908	<b>3 375</b>	2 307
USA	<b>7 343</b>	5 424	<b>995</b>	573	<b>20</b>	20
Canada	<b>637</b>	463	<b>2 061</b>	1 858	<b>130</b>	166
Brazil	<b>3 108</b>	3 873	<b>34 329</b>	43 454	<b>2 295</b>	1 077
Other Americas	<b>787</b>	544	-	-	-	-
Qatar	<b>2 003</b>	1 351	<b>12 279</b>	10 799	-	-
Japan	<b>4 705</b>	4 652	<b>3</b>	2	<b>1</b>	-
Singapore	<b>3 329</b>	3 020	<b>1</b>	-	<b>1</b>	-
Saudi Arabia	<b>2 347</b>	1 530	-	-	-	-
South Korea	<b>2 145</b>	1 928	-	-	-	-
China	<b>1 742</b>	608	<b>3</b>	-	-	-
Hong Kong	<b>1 452</b>	307	-	-	-	-
Taiwan	<b>834</b>	807	-	-	-	-
Other Asia	<b>4 123</b>	3 404	-	-	-	-
Australia and New Zealand	<b>1 310</b>	1 051	<b>815</b>	751	<b>45</b>	56
Africa	<b>424</b>	289	-	-	-	-
<b>Total outside Europe</b>	<b>36 287</b>	29 251	<b>50 485</b>	57 437	<b>2 491</b>	1 318
<b>Total</b>	<b>87 694</b>	77 907	<b>86 384</b>	90 345	<b>5 865</b>	3 625

## 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.

The company has evaluated its principles of remuneration of executive management, including adaptation to "Retningslinjer for lønn og annen godtgjørelse til ledende ansatte i foretak og selskaper med statlig eierandel" (the Government's guidelines on remuneration of executive management in entities in which the Government has an ownership interest) issued by the Ministry of Trade, Industry and Fisheries amended with effect from 13.2.2015.

### 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."* The guidelines will be evaluated in the coming year.

### Process for determination of remuneration

The Board of Directors has appointed a separate compensation committee consisting of the board chairperson and two shareholder-elected board members, 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 2016. The Board of Directors proposes that the principles set forth below shall apply for 2016 and up until the Annual General Meeting in 2017.

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.

## 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 reflect (a) achievement of pre-defined financial targets, (b) achievement of strategic, operational and organizational key performance indicators (KPIs) including targets relating to safety and environment (HSE) and corporate social responsibility (CSR), (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 and 25 percent of annual base salary, respectively. LTI payments are dependent on Hydro achieving positive underlying earnings before interest and tax (EBIT) for the previous financial year. 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 1 March 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 1 January 2016, approximately 77 percent of the permanent 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.

The defined contribution plan stipulates a payment into the plan of amounts equal to 5 percent of the salary between 1 and 6 G and 8 percent of the salary between 6 and 12 G, where "G" is the Norwegian National Insurance basic amount. Following

changes to the Norwegian National Insurance Scheme and the Act on Defined Contribution Occupational Pension, the company is working on an adjustment of its defined contribution plan. The defined benefit plan implies a pension right of approximately 65 percent of pensionable salary subject to full service period (minimum 30 years).

The company has an arrangement funded through operations for earning pension on the portion of any salary exceeding 12G (12G plan). 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 CEO and the other Norwegian members of the Corporate Management Board were part of the 12G plan at the beginning of 2015. The company has initiated a process to close this plan during 2016. New members of the Corporate Management Board will not be offered the possibility to earn pension on the portion of salary exceeding 12G.

The company is in the process of adapting to the new rules on age limits in the Working Environment Act, and this will be completed by the deadline of 1 July 2016. Until this work is completed, the normal retirement age in Hydro in Norway is 67 years. From this age, the normal pension rules apply (defined contribution or defined benefit). The company has no early retirement plan, except for the two closed schemes mentioned below.

Until 2011, Hydro had an early retirement scheme for employees on certain levels offering 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 1 January 2016, the pensionable salaries are capped at NOK 7,050,985 for the CEO and NOK 4,325,380 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 2015, 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.

One member of the Corporate Management Board, Alberto Fabrini, has variable compensation schemes deviating from the description above. He is employed by Norsk Hydro Brasil Ltda in Brazil. These schemes entail a framework for variable compensation of up to 8.8 months' base salary for each of the elements (short-term incentive and long-term incentive). Both incentive schemes are performance-based as described above. The Board of Directors' overall assessment is that Fabrini's total remuneration framework is in accordance with market practice in Brazil.

Fabrini 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 2015 was based on the guidelines presented at the Annual General Meeting in 2015.

In July 2015, the Board of Directors decided to increase the CEO's base salary by 3.1 percent, from NOK 5,883,000 to NOK 6,065,000 with effect from January 1, 2015.

Bonus payments for 2014 were determined and paid in 2015 on the basis of the principles described above (see also note 9 Management remuneration). Bonus payments for 2015 were determined in March 2016 on the basis of the principles described above and will be paid during 2016.

### 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, 2015 and 2014 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 2015 and 2014.

Name	Base salary 1) 2)	Maximum bonus potential 1) 2)	Salary paid 1) 3)	Other benefits paid 1) 3)	Compensation pension paid 1) 3)	Bonus earned 1) 3)	Long-term incentive (LTI) earned 1) 3)	Pension benefits 1) 4)	LTI-shares allocated 3)	Hydro share ownership 5)
<b>2015</b>										
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 <sup>6)</sup>	3 478	5 347	3 478	1 053	-	4 589	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 <sup>7)</sup>	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 <sup>7)</sup>	2 350	940	2 398	195	161	629	588	1 209	-	4 339
Inger Sethov <sup>7)</sup>	2 150	860	2 224	270	195	576	538	764	-	3 663
Hanne Simensen <sup>7)</sup>	2 350	940	2 442	261	150	641	588	1 310	-	2 764
<b>2014</b>										
Svein Richard Brandtzæg	5 883	2 942	6 034	239	-	2 145	1 765	5 066	30 611	160 565
Eivind Kallevik <sup>8)</sup>	2 839	1 136	2 923	208	102	857	710	946	11 285	21 075
Alberto Fabrini <sup>6)</sup>	3 572	3 133	3 008	830	-	2 987	521	43	-	-
Hilde Aasheim	3 067	1 227	3 162	186	-	997	767	1 715	13 298	50 699
Oliver Bell <sup>9)</sup>	4 692	1 877	4 694	132	-	817	1 173	11 855	19 922	70 553
Arvid Moss	2 860	1 144	2 927	241	-	824	715	2 054	12 400	117 685
Wenche Agerup <sup>10)</sup>	2 839	1 136	2 907	246	237	749	710	1 024	12 311	55 034
Johnny Undeli <sup>11)</sup>	6 375	548	4 903	200	-	251	-	2 422	14 253	53 194

- 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 for all corporate management board members is as of December 31.
- 6) Alberto Fabrini became member of the Corporate Management Board as of June 1, 2014. In addition to the performance related pay arrangement for all members of the Corporate Management Board, Fabrini has a cash-paid long-term incentive which is payable over three years with payments partly dependent on salary levels and business results in the following two years, included in bonus. The reported bonus amounts represent estimates, and prior year estimates have been updated.
- 7) Kjetil Ebbesberg, Anne-Lene Midseim, Inger Sethov, and Hanne Simensen became members of the Corporate Management Board as of January 1, 2015.
- 8) In June 2014, Kallevik obtained a loan from Hydro of NOK 175 thousand at an interest rate of 7.5 percent. The loan was repaid in August 2014.
- 9) Oliver Bell stepped down from the Corporate Management Board and left Hydro as of December 31, 2014. In addition to the benefits included in the table above, Bell received termination benefits amounting to NOK 16,874 thousand in 2015. The long term incentive earned for 2014, was settled in cash in 2015. Bell was not required to make any payments to Hydro for non-vested LTI shares at termination of employment.
- 10) Wenche Agerup stepped down from the Corporate Management Board and left Hydro as of December 31, 2014. In addition to the benefits included in the table above, Agerup received salary and other benefits during her six month notice period ending June 30, 2015, amounting to NOK 1,952 thousand. Agerup had no work obligations for Hydro in this period. From July 1, 2015, Agerup receives severance pay for a period of 12 months, amounting to NOK 1,215 thousand in 2015, and with an estimated amount of NOK 532 thousand to be received in 2016. Agerup was not required to make any payments to Hydro for non-vested LTI shares at termination of employment. Under the long-term incentive earned in 2014 and settled in 2015, Agerup received 8,025 shares.
- 11) Johnny Undeli stepped down from the Corporate Management Board as of May 31, 2014.

## 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 2014) 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 2015 for the chairperson of the board, deputy chairperson and directors are NOK 600,000 (2014: NOK 582,000), NOK 376,000 (2014: NOK 365,000) and NOK 329,000 (2014: NOK 319,000), respectively. The chairperson of the audit committee and the chairperson of the compensation committee receive an additional NOK 190,000 (2014: NOK 185,000) and NOK 109,000 (2014: NOK 106,000) annually in fees, respectively, and audit and compensation committee members receive NOK 124,000 (2014: NOK 120,500) and NOK 82,000 (2014: NOK 79,500) annually, respectively, for their participation on these committees.

Total board fees and individual board member fees for 2015 and 2014, and outstanding loans and board member share ownership as of December 31, 2015 and 2014, are presented in the tables below.

### Board of Directors' fees

Amounts in NOK thousand	2015	2014
Fees and other remuneration - normal board activities	3 678	3 740
Fees - compensation committee	355	345
Fees - audit committee	562	547
<b>Total fees for board services provided to Hydro during the year</b>	<b>4 595</b>	<b>4 631</b>

Board member	Board fees <sup>1)</sup>		Outstanding loans <sup>1) 2)</sup>		Number of shares <sup>3)</sup>	
	2015	2014	2015	2014	2015	2014
Dag Mejdell <sup>4)</sup>	709	584	-	-	35 000	35 000
Inge K. Hansen <sup>5)</sup>	566	550	-	-	12 000	12 000
Finn Jebsen <sup>6)</sup>	411	399	-	-	53 406	53 406
Eva Persson <sup>7)</sup>	453	440	-	-	-	-
Pedro Rodrigues	399	399	-	-	-	-
Irene Rummelhoff <sup>8)</sup>	411	232	-	-	5 000	5 000
Liv Monica Stubholt <sup>9)</sup>	453	422	-	-	-	-
Ove Ellefsen <sup>10) 11)</sup>	329	389	-	-	8 083	7 547
Billy Fredagsvik <sup>11) 12)</sup>	453	369	107	57	3 698	3 162
Sten Roar Martinsen <sup>6) 11)</sup>	411	399	-	-	4 754	4 218
Terje Vareberg <sup>13)</sup>	-	295	-	-	-	28 391
Victoire de Margerie <sup>14)</sup>	-	153	-	-	-	-
<b>Total</b>	<b>4 595</b>	<b>4 631</b>	<b>107</b>	<b>57</b>	<b>121 941</b>	<b>148 724</b>

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, 2015 and 2014 for board members as of December 31, 2015 and 2014; otherwise loans are as of the date the individual stepped down from the Board of Directors. At the end of 2015 the loan to Billy Fredagsvik had an interest rate of 7.5 percent, with a repayment period of 13 months. All payments have been made in a timely fashion and in accordance with the agreed payment schedule. Loans have not been extended to related parties.

3) Number of shares owned as of December 31, 2015 and 2014 for board members as of December 31, 2015 and 2014; 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 as of May 27, 2014. Chairperson of the board compensation committee as of June 4, 2014. Member of the board audit committee until June 4, 2014.

5) Deputy chairperson of the board, and chairperson of the board audit committee.

6) Member of the board compensation committee.

7) Member of the board audit committee.

8) Member of the board as of May 27, 2014. Member of the compensation committee as of June 4, 2014.

9) Member of the board audit committee as of June 4, 2014. Member of the board compensation committee until June 4, 2014.

10) Member of the board audit committee until August 1, 2014.

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 as of August 1, 2014.

13) Chairperson of the board until May 27, 2014. Chairperson of the board compensation committee until May 27, 2014.

14) Member of the board until May 27, 2014.



## Corporate Assembly

Corporate Assembly members owned 30,135 shares as of December 31, 2015. 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 448 thousand as of December 31, 2015. The interest rates on these loans are 3.10 percent and 7.50 percent with a repayment period between eight months and 29 years.

## Note 11 - Related party information

As of December 31, 2015, 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 (2014: 34.8 percent). Folketrygdfondet <sup>1)</sup> held 6.3 percent (2014: 7.4 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 70 companies are managed by the ministries and covered by public information from the Ministry of Trade, Industry and Fisheries <sup>2)</sup>. 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 planned 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.

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 206 million and NOK 201 million for 2015 and 2014, 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 retains 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 will pay a compensation for reduced rental and certain costs including identified maintenance projects, estimated at NOK 507 million, payable over the remaining rental period until 2021. The change resulted in a loss of NOK 285 million recognized in 2015.

The members of Hydro's board of directors during 2015 and 2014 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 6.6 million in 2015. During 2014 and the period 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 and NOK 0.1 million for 2014. 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 associated companies and transactions with those companies are described in note 32 Investments in associates. 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 Depository (VPS) as of December 31, 2015. 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](http://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 2015 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 a 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 is 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, impacts the recognized value of the debt, and is 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 and US dollars. The corresponding interest rate exposures are consequently related to Norwegian Krone and US dollar 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 counterparty. 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 long-term bond or bank debt in available markets. Hydro has a revolving syndicated credit facility of USD 1.7 billion maturing in 2020. The facility remained undrawn at year-end.

Repayments of long-term debt are disclosed in note 35 Long-term debt. Further, all other financial liabilities, such as trade payables, with the exception of derivatives, have a final maturity date within one year. An overview of estimated gross cash flows from derivatives accounted for as liabilities and assets is presented below. Many of these assets and liabilities are offset by cash flows from contracts not accounted for as derivatives.

Risk of significant cash payments or margin calls related to derivative instruments is limited due to strict volume limits, value-at-risk and tenor limits for relevant trading activities.

Information about derivatives and other financial instruments held, including sensitivity analysis, is presented in Note 13 Financial instruments

Expected gross cash flows from derivatives accounted for as financial liabilities and financial assets, respectively, as of end of year:

Amounts in NOK million	December 31, 2015		December 31, 2014	
	Liabilities	Assets	Liabilities	Assets
2015			(295)	562
2016	(429)	425	(28)	6
2017	(22)	20	-	-
2018	(5)	1	-	-
2019	(5)	-	-	-
2020	(4)	-	-	-
<b>Total</b>	<b>(465)</b>	<b>446</b>	<b>(323)</b>	<b>568</b>

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 <sup>1)</sup>	Derivatives identified as hedging instruments	Loans and receivables	Available-for- sale financial assets <sup>2)</sup>	Other financial liabilities <sup>3)</sup>	Non-financial assets and liabilities	Total
<b>2015</b>							
<b>Assets - current</b>							
Cash and cash equivalents	-	-	6 917	-	-	-	6 917
Short-term investments	1 085	-	4 667	-	-	-	5 752
Accounts receivable	-	-	8 436	-	-	2 361	10 797
Other current financial assets	502	-	-	-	-	-	502
<b>Assets - non-current</b>							
Investments accounted for using the equity method	-	-	3	-	-	20 147	20 150
Other non-current assets	205	-	630	1 798	-	1 981	4 614
<b>Liabilities - current</b>							
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
<b>Liabilities - non-current</b>							
Long-term debt	-	-	-	-	3 969	-	3 969
Other non-current financial liabilities	1 766	403	-	-	-	-	2 169
<b>2014</b>							
<b>Assets - current</b>							
Cash and cash equivalents	-	-	9 253	-	-	-	9 253
Short-term investments	1 108	-	678	-	-	-	1 786
Accounts receivable	-	-	9 327	-	-	2 376	11 703
Other current financial assets	543	-	-	-	-	-	543
<b>Assets - non-current</b>							
Investments accounted for using the equity method	-	-	4	-	-	18 092	18 095
Other non-current assets	59	-	705	1 757	-	3 706	6 227
<b>Liabilities - current</b>							
Bank loans and other interest-bearing short-term debt	-	-	-	-	6 039	-	6 039
Trade and other payables	-	-	-	-	5 825	3 838	9 663
Other current financial liabilities	301	105	-	-	-	-	406
<b>Liabilities - non-current</b>							
Long-term debt	-	-	-	-	5 128	-	5 128
Other non-current financial liabilities	909	455	-	-	1 416	-	2 780

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.

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.

Hydro's liability to acquire the remaining shares in Paragominas is included as a financial liability at amortized cost, net of certain guarantees issued by the seller in Hydro's acquisition of Vale Aluminium in 2011, measured at fair value.

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 <sup>1)</sup>
<b>2015</b>							
<b>Income statement line item</b>							
Revenue	(517)	-	-	-	-	-	(517)
Raw material and energy expense	(177)	1	-	-	-	-	(176)
Other expense	-	-	-	-	-	-	-
Financial income	(4)	-	-	(13)	-	-	(17)
Financial expense	745	-	-	-	-	-	745
<b>Gain/loss directly in Other comprehensive income</b>							
Recognized in Other comprehensive income (before tax)				(23)			
Removed from Other components of equity and recognized in the income statement				-			
<b>2014</b>							
<b>Income statement line item</b>							
Revenue	(169)	(50)	-	-	-	-	(219)
Raw material and energy expense	456	95	-	-	-	-	551
Other expense	(122)	-	-	-	-	-	(122)
Financial income	(49)	-	-	(21)	-	-	(70)
Financial expense	931	-	-	-	-	-	931
<b>Gain/loss directly in Other comprehensive income</b>							
Recognized in Other comprehensive income (before tax)				(138)			
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, 2015 and December 31, 2014, respectively. Effects shown below are largely also representative of reductions in rates or prices by 10 percent but with the opposite sign convention. Only effects that would ultimately be accounted for in the income statement, or equity, as a result of a change in rates or prices are included. All changes are before tax.

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

Amounts in NOK million	Fair value as of December 31, 2014 <sup>1)</sup>	Gain (loss) from 10 percent increase in						
		Foreign currency exchange rates			Commodity prices		Interest	
		USD	EUR	Other	Aluminium	Other	rates	Other
Derivative financial instruments <sup>2)</sup>	(854)	-	(648)	-	-	-	12	-
Other financial instruments <sup>3)</sup>	3 503	(904)	330	55	-	-	(3)	29
Derivative commodity instruments <sup>4)</sup>	(54)	(298)	3	(2)	(279)	(146)	(7)	(17)
Financial instruments through OCI <sup>5)</sup>	663	494	(56)	-	-	12	(118)	121

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:

- 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.
- No 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 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	2015	Level 1	Level 2	Level 3	2014	Level 1	Level 2	Level 3
<b>Assets</b>								
Commodity derivatives	707	449	91	167	602	317	233	51
Securities held for trading	1 085	316	764	5	1 109	314	788	6
Available for sale financial assets	1 263	-	-	1 263	1 222	-	-	1 222
<b>Total</b>	<b>3 055</b>	<b>765</b>	<b>855</b>	<b>1 435</b>	<b>2 933</b>	<b>631</b>	<b>1 022</b>	<b>1 280</b>
<b>Liabilities</b>								
Commodity derivatives	(711)	(465)	(25)	(221)	(655)	(70)	(46)	(539)
Currency derivatives	(1 529)	(413)	(1 117)	-	(855)	-	(277)	(578)
Cash flow hedges	(514)	(1)	(70)	(443)	(560)	-	-	(560)
Other non-current financial liabilities	355	-	-	355	300	-	-	300
<b>Total</b>	<b>(2 399)</b>	<b>(879)</b>	<b>(1 211)</b>	<b>(309)</b>	<b>(1 770)</b>	<b>(70)</b>	<b>(323)</b>	<b>(1 378)</b>

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, 2013	137	(535)	-	(465)	1 009	1 056
Total gains (losses) in income statement	(54)	(159)	(578)	4	-	124
in Other comprehensive income	-	-	-	(99)	138	-
Settlements	(37)	170	-	-	-	(1 090)
Currency translation difference	5	(16)	-	-	75	216
December 31, 2014	51	(539)	(578)	(560)	1 222	306
Total gains (losses) in income statement	116	137	-	117	-	31
in Other comprehensive income	-	-	-	-	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
<b>Total gains (losses) for the period</b>	<b>116</b>	<b>319</b>	<b>-</b>	<b>117</b>	<b>23</b>	<b>31</b>
Total gains (losses) for the period included in the income statement for assets held at the end of the reporting period	116	319	-	117	23	31

Embedded currency derivatives with long duration, exceeding ten years, were classified as level 3 measurements in 2014. During 2015 we have 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:

Amounts in NOK million	Gain (loss) from 10 percent decrease in				
	USD	EUR	Aluminium	Other commodity	Interest rates
Commodity derivatives	153	-	(110)	53	(11)
Currency derivatives	-	-	-	-	-
Cash flow hedges	-	44	-	(16)	1
Available for sale financial assets	(181)	-	-	-	97

## 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 of derivative instruments 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, 2015 and December 31, 2014. 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	2015	2014
<b>Assets</b>		
Electricity contracts	138	63
Aluminium futures, forwards and options	534	538
Other	35	-
<b>Total</b>	<b>707</b>	<b>601</b>
<b>Liabilities</b>		
Electricity contracts	(122)	(37)
Coal forwards	(241)	(658)
Aluminium futures, forwards and options	(347)	63
Other	-	(23)
<b>Total</b>	<b>(710)</b>	<b>(655)</b>

Embedded derivatives are classified based on the underlying in the contract feature constituting a separable embedded derivative in the table above.

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 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.

Hydro also hedged part of the US dollar exposure on sales of aluminium and alumina to be produced in the Brazilian plants Alunorte and Albras in 2013 and 2014. All of the forward instruments had matured as of December 31, 2014.

Ineffectiveness amounting to NOK 4 million was recognized in the income statement in 2014. No ineffectiveness was identified and recognized in 2015.

The table below gives aggregated numbers related to the cash flow hedges for the period 2014 to 2015.

	2016	2015	2014
Expected to be reclassified to the income statement during the year (NOK million)	(33)	(99)	(52)
Reclassified to the income statement from Other components of equity (NOK million) <sup>1)</sup>		(10)	(33)

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

Liabilities of NOK 443 million and NOK 560 million were recognized as the fair value of cash flow hedging instruments for December 31, 2015 and 2014, 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 2015 and 2014, please see note 39 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	2015	2014
Gain on sale of property, plant and equipment	71	93
Net gain (loss) on sale of subsidiaries, associates and joint ventures <sup>1)</sup>	(400)	7
Net loss acquisition subsidiary <sup>2)</sup>	-	(38)
Revenue from utilities <sup>3)</sup>	154	154
Rental revenue	264	286
Government grants	251	150
Other <sup>4)</sup>	121	98
<b>Other income, net</b>	<b>461</b>	<b>751</b>

1) Includes loss related to sale of Hydro's rolling mill in Slim, Italy, of NOK 434 million.

2) Net loss acquisition of subsidiary reflects the holding loss on previously held shares in Soral, the gain on acquisition of Soral, as well as the settlement of preexisting contracts with Soral.

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

4) Other includes royalties and insurance compensations.

## Note 16 - Raw material and energy expense

Amounts in NOK million	2015	2014
Raw material expense and production related cost	56 089	52 035
Change in inventories own production	93	(667)
Write-downs of inventories	148	116
Reversals of write-downs of inventory	(1)	(4)
<b>Raw material and energy expense</b>	<b>56 330</b>	<b>51 480</b>

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. From the measurement period 2014, each employee can purchase shares with a rebate of 50 percent for a value of NOK 12,500 or NOK 25,000, depending on shareholder return and the employee's choice.

Compensation expense related to the 2014 performance measurement period was accrued and recognized over the service period of December 31, 2014 through March 31, 2015, the final acceptance date of the offer. In 2015 and 2014 the participation rates of eligible employees in the employee share purchase plan were 88 and 82 percent, respectively. Details related to the employee share purchase plan are provided in the table below.

**Employee share purchase plan**

<b>Performance measurement period</b>	2015	2014	2013
Total shareholder return performance target achieved	<12%	≥12%	<12%
Employee rebate, NOK	6 250	6 250/12 500	2 500
Employee rebate, percent	50%	50%	25%

**Share purchase plan compensation**

	2015	2014
Award share price, NOK	<b>46.70</b>	29.70
Number of shares issued, per employee	<b>268 / 536</b>	336
Total number of shares issued to employees	<b>1 694 564</b>	921 984
Compensation expense related to the award, NOK thousand	<b>39 568</b>	6 848

**Employee benefit expense**

The average number of employees in Hydro for 2015 and 2014 was 13,136 and 12,653, respectively. As of year end 2015 and 2014, Hydro employed 12,870 and 12,922 people, respectively. Employees in joint operations are not included. The specification of employee benefit expenses for 2015 and 2014, including employee benefits in joint operations, is given in the table below.

**Employee benefit expense**

Amounts in NOK million	2015	2014
Salary	<b>7 001</b>	6 507
Social security costs	<b>1 128</b>	842
Other benefits	<b>291</b>	228
Pension expense (note 38)	<b>627</b>	512
Total	<b>9 048</b>	8 089

**Note 18 - Depreciation and amortization expense****Specification of depreciation and amortization by asset category**

Amounts in NOK million	2015	2014
Buildings	<b>795</b>	608
Machinery and equipment	<b>4 133</b>	3 880
Intangible assets	<b>97</b>	76
Depreciation and amortization expense	<b>5 024</b>	4 565

## Note 19 - Impairment of non-current assets

Amounts in NOK million	2015	2014
<b>Classification by asset category</b>		
<b>Impairment losses</b>		
Property, plant and equipment	-	214
Intangible assets	(1)	(8)
<b>Total impairment of non-current assets</b>	<b>(1)</b>	<b>206</b>
<b>Classification by segment</b>		
<b>Impairment losses</b>		
Bauxite & Alumina	-	44
Rolled Products	-	145
Primary Metal	-	-
Metal Markets	-	25
Energy	(1)	(8)
Other activities	-	-
<b>Total impairment of non-current assets</b>	<b>(1)</b>	<b>206</b>

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 to sell (FV), and comparing the highest of the two against the carrying value of the CGUs. The calculation of VIU has been based on management's best estimate, reflecting Hydro's business planning process. The discount rates are derived as the weighted average cost of capital (WACC) for a similar business in the same business environment. For Hydro's businesses the pre tax nominal discount rate is estimated at between 8.75 and 18.5 percent (2014: 9.5-15.5 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.

In 2015 we identified impairment indicators for Primary Metal's smelters that have US dollars or Norwegian kroner as their functional currencies. Currently observed sales prices for aluminium and expected sales prices in the next three to five years have deteriorated compared to market observations and expectations one year ago. These reductions are to some extent offset by cost reductions, most significantly for smelters with local costs in currencies that have weakened towards USD, such as Brazilian real and NOK. 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 11 billion NOK 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. 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 well above the currently observed market prices combined with CO<sub>2</sub> compensation to energy intensive industry in Norway and the EU is assumed. None of the smelters were considered impaired, as the recoverable amount measured as VIU exceeded the carrying amount for all CGUs. Coverage was limited for the Slovalco smelter, about 20 percent of the carrying amount. The tests are 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 2014 we identified impairment indicators for Rolled Products' plant in Slim, Italy. The CGU was tested for impairment at the end of 2014. The recoverable amount was determined to be below the carrying value, and the assets were written down by NOK 145 million. The subsidiary owning the plant was sold in 2015 with a loss of NOK 434 million.

In addition certain assets were written down as impaired due to physical damage or obsolescence. Previously impaired CO<sub>2</sub> quotas regained some value both in 2014 and 2015, and previous write-down was therefore partly reversed.

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	2015	2014
Bauxite & Alumina Operations	2 325	2 875
Remelters sector (Metal Markets)	408	301
<b>Total goodwill</b>	<b>2 734</b>	<b>3 177</b>

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 59 billion. The value significantly exceeds the carrying value of NOK 25 billion. The calculation used cash flow forecasts in BRL based on internal plans approved by management covering a five-year period. All significant 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 2015 values, to which the test is sensitive are shown in the table below:

	Assumptions	
	2016	Long-term
Exchange rate BRL/USD	3.90	3.79
Alumina price (USD/mt)	274	360
Inflation difference Brazil - main Western economies	5.5%	2.5%
Production volume alumina (million mt)	6.2	6.6
Discount rate nominal, pre-tax	18.5%	18.5%

Significant cash flows are denominated in US dollars. These are translated to BRL at a rate of 3.90 for 2016 with a slight increase to a nominal rate of 4.60 in 2023, equal to a real exchange rate of 3.79. For future periods the exchange rate is projected with a rate development reflecting the inflation difference 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 2015 assumptions over the entire 40-year period:

	% change	Value
Exchange rate BRL/USD	(36%)	2.42
Alumina price (USD/mt)	(24%)	273
Production volume alumina (million mt)	(33%)	4.4
Discount rate (% point)	83%	33.75%
Increase in total production cost (million BRL 2015)	31%	1 800

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 exceeds the carrying amount by about 11 percent.

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 330 million in 2015 and NOK 277 million in 2014. 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 planned 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. A significant proportion of the means are also used for further developing the production processes and products within casting and alloy technology as well as rolled products. A new research department for Bauxite & Alumina has been established at Alunorte in Para, Brazil.

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 was NOK 21 million in 2015 and NOK 32 million in 2014.

## 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 2015	194	574	1 119	1 887
Operating lease obligation 2014	318	1 104	1 072	2 494

Operating lease expense for office space, machinery and equipment amounts to NOK 347 million for 2015 and NOK 341 million for 2014.

## Note 22 - Financial income and expense

Amounts in NOK million	2015	2014
Interest income	279	275
Dividends received and net gain (loss) on securities	18	71
Financial income	297	347
Interest expense	(337)	(438)
Capitalized interest	34	3
Net foreign exchange gain (loss)	(4 397)	(3 161)
Accretion	(404)	(353)
Other	(26)	48
Financial expense	(5 130)	(3 900)
Financial income (expense), net	(4 834)	(3 554)

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	2015	2014
<b>Income before tax</b>		
Norway	2 005	255
Other countries	1 420	1 865
<b>Total</b>	<b>3 425</b>	<b>2 121</b>
<b>Current taxes</b>		
Norway	563	566
Other countries	850	1 040
<b>Current income tax expense</b>	<b>1 414</b>	<b>1 605</b>
<b>Deferred taxes</b>		
Norway	510	255
Other countries	(831)	(968)
<b>Deferred tax expense (benefit)</b>	<b>(321)</b>	<b>(713)</b>
<b>Total income tax expense (benefit)</b>	<b>1 092</b>	<b>892</b>

### Components of deferred taxes

Origination and reversal of temporary differences	409	(673)
Benefit tax loss carryforwards	351	(950)
Net change in unrecognized deferred tax assets	(690)	48
Tax (expense) benefit allocated to Other comprehensive income	(391)	863
<b>Deferred tax expense (benefit)</b>	<b>(321)</b>	<b>(713)</b>

### Reconciliation of tax expense to Norwegian nominal statutory tax rate

Amounts in NOK million	2015	2014
Expected income taxes at statutory tax rate <sup>1)</sup>	925	573
Hydro-electric power surtax <sup>2)</sup>	535	612
Equity accounted investments	(138)	(112)
Foreign tax rate differences	(45)	(125)
Tax free income	(64)	(37)
Deferred tax asset not recognized and expired tax loss carryforwards	(294)	(40)
Withholding tax	113	17
Other tax benefits and deductions with no tax benefits, net	60	5
<b>Income tax expense (benefit)</b>	<b>1 092</b>	<b>892</b>

1) Norwegian nominal statutory tax rate is 27 percent. It is changed to 25 percent from 2016.

2) A surtax of 31 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 33 percent from 2016.



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, 2015 and December 31, 2014:

Amounts in NOK million	Assets 2015	Liabilities 2015	Assets 2014	Liabilities 2014
Inventory valuation	320	(262)	296	(446)
Accrued expenses	909	(318)	1 069	(267)
Property, plant and equipment	4 606	(9 131)	4 701	(9 769)
Intangible assets	1 027	(1 057)	978	(1 042)
Pensions	2 366	(921)	2 512	(767)
Derivatives	668	(173)	531	(128)
Other	700	(1 539)	216	(1 011)
Tax loss carryforwards	3 961		4 966	
Subtotal	14 557	(13 401)	15 270	(13 429)
Of which not recognized as tax asset	(1 213)		(2 041)	
Gross deferred tax assets (liabilities)	13 344	(13 401)	13 229	(13 429)
Net deferred tax assets (liabilities)		(57)		(200)
<b>Reconciliation to balance sheets</b>		<b>2015</b>		<b>2014</b>
Deferred tax assets		1 943		1 476
Deferred tax liabilities		1 999		1 676
Net deferred tax assets (liabilities)		(57)		(200)

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

At the end of 2015, Hydro had tax loss carryforwards of NOK 11,859 million, primarily in Brazil, Australia, Spain and Switzerland. None of the losses carry forward expire before 2018. Of the total, NOK 10,357 million is without expiration. Tax assets are recognized for about 75 percent of the tax losses.

## Note 24 - Short-term investments

Amounts in NOK million	2015	2014
Bank, time deposits	4 550	500
Equity securities	292	293
Debt securities	793	816
Other	117	178
Total short-term investments	5 752	1 786

## Note 25 - Trade and other receivables

Amounts in NOK million	2015	2014
Trade receivables	7 929	8 626
VAT and other sales taxes	1 355	1 170
Other receivables	1 545	1 981
Allowance for credit losses	(32)	(73)
<b>Trade and other receivables</b>	<b>10 797</b>	<b>11 703</b>

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

## Note 26 - Inventories

Amounts in NOK million	2015	2014
Raw materials	4 765	5 074
Work in progress	3 260	3 322
Finished goods	4 167	4 247
<b>Inventories</b>	<b>12 192</b>	<b>12 642</b>

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

## Note 27 - Other non-current assets

Amounts in NOK million	2015	2014
Equity securities	1 263	1 222
Other securities	536	537
Employee loans	130	144
Derivative instruments	204	59
Prepaid taxes and tax credits	1 981	3 706
Other receivables	500	558
<b>Other non-current assets</b>	<b>4 614</b>	<b>6 227</b>

## Note 28 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
<b>Cost</b>					
December 31, 2013	913	20 550	75 648	3 023	100 135
Additions	1	116	1 552	1 760	3 429
Acquisitions through business combinations	-	685	267	18	970
Disposals	(2)	(686)	(3 419)	(7)	(4 114)
Transfers	(43)	391	1 924	(2 272)	-
Foreign currency translation effect	73	936	4 891	164	6 065
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 <sup>1)</sup>	83	2 343	(1 167)	(1 260)	-
Foreign currency translation effect	70	(945)	(3 328)	(315)	(4 518)
December 31, 2015	1 110	23 291	76 039	4 101	104 541
<b>Accumulated depreciation and impairment</b>					
December 31, 2013	(3)	(9 514)	(37 761)	(3)	(47 280)
Depreciation for the year	-	(608)	(3 880)	-	(4 489)
Impairment losses	(5)	(1)	(208)	-	(214)
Disposals	-	668	3 299	-	3 967
Transfers	-	(7)	3	4	-
Foreign currency translation effect	(1)	(390)	(2 359)	-	(2 750)
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 <sup>1)</sup>	-	(253)	253	-	-
Foreign currency translation effect	(2)	(84)	(429)	-	(515)
December 31, 2015	(5)	(10 679)	(42 683)	-	(53 367)
<b>Carrying value</b>					
December 31, 2014	934	12 141	39 958	2 687	55 719
December 31, 2015	1 105	12 612	33 355	4 101	51 174

1) Transfers includes reclassification of certain industrial structures following renewed assessment.

## Note 29 - Intangible assets

Amounts in NOK million	Intangible assets under development	Mineral rights	Waterfall rights	Software	Acquired sourcing contracts	Other intangibles assets	Total
<b>Cost</b>							
December 31, 2013	154	865	329	899	1 200	998	4 446
Additions	35	-	-	106	-	33	174
Disposals	-	-	-	(16)	-	(11)	(26)
Transfers	(12)	-	-	11	-	1	-
Foreign currency translation effect	-	58	-	57	81	47	243
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
<b>Accumulated amortization and impairment</b>							
December 31, 2013	-	-	(190)	(763)	(237)	(638)	(1 829)
Amortization for the year <sup>1)</sup>	-	-	-	(61)	(89)	(17)	(167)
Reversal of impairment loss	-	-	-	-	-	8	8
Disposals	-	-	-	16	-	6	22
Foreign currency translation effect	-	-	-	(48)	(20)	(32)	(100)
December 31, 2014	-	-	(190)	(856)	(346)	(673)	(2 066)
Amortization for the year <sup>1)</sup>	-	-	-	(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)
<b>Carrying value</b>							
December 31, 2014	176	924	139	202	935	396	2 771
December 31, 2015	233	747	139	200	682	386	2 388

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 acquired in 2013 have indefinite life and are thus not depreciated.

## Note 30 - Goodwill

Amounts in NOK million	Bauxite & Alumina	Metal Markets	Total
<b>Cost</b>			
December 31, 2013	2 694	250	2 945
Foreign currency translation effect	181	51	232
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

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, (from November 1, 2014), 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). 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 10,812 million in 2015 and NOK 9,719 million in 2014. Related payables amount to NOK 1,035 million at the end of 2015 and NOK 871 million at the end of 2014. Sales from Hydro to Qatalum amounted to NOK 2,201 million in 2015 and NOK 1,668 million in 2014, primarily alumina. Related receivables amounted to NOK 128 million and NOK 36 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 on 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 extrusion profiles, building systems and precision tubing and employs around 23,000 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 5,314 million in 2015 and NOK 5,303 million in 2014. Hydro's accounts receivables amounted to NOK 689 million and NOK 934 million at the end of 2015 and 2014, respectively. Sapa is part of Other Activities.

Sapa has several CGUs, and identified impairment indicators for some of those both in 2015 and 2014. Recognized impairments mainly related to closed, divested and significantly restructured units.

Sapa Profiles Inc. Portland (SPI), a subsidiary of Sapa AS, is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding aluminum extrusions that SPI manufactured from 1996-2015 and delivered to a supplier to NASA. SPI is cooperating fully in these investigations. In response to these pending investigations, Sapa has performed audits of its quality assurance processes at all relevant extrusion operations in North America, and is in the process of finalizing audits of its extrusion operations in Europe. Quality issues identified in these audits have been, or are in the process of being, addressed with the affected customers and remediation actions are being undertaken. The investigations are currently ongoing, and, at this point, the outcome of the DOJ investigations and of the identified quality issues, including financial consequences on Sapa, is uncertain. Based on the information known to Hydro at this stage, Hydro does not expect any resulting liabilities to have a material adverse effect on its consolidated results of operations, liquidity or financial position.

The table below summarizes key figures for these joint ventures for 2015 and 2014. 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 venture on 100 percent basis.

Amounts in NOK million	Qatalum		Sapa	
	2015	2014	2015	2014
Revenue	11 031	9 830	55 252	46 384
Depreciation and amortization	2 240	1 765	1 321	1 263
Earnings before financial items and tax	1 257	1 832	528	(316)
Financial income (expense), net	(478)	(383)	(280)	(266)
Income tax expense	-	-	4	(38)
Net income (loss)	779	1 449	251	(622)
Other comprehensive income	181	94	1 082	937
Total comprehensive income	960	1 543	1 333	315
Cash and cash equivalents	3 430	3 307	2 512	1 882
Other current assets	4 016	3 538	12 829	13 422
Non-current assets	36 725	32 452	13 529	12 295
Current financial liabilities	1 036	1 143	1 596	758
Non-current financial liabilities	17 075	15 176	3 084	3 205
Other liabilities	1 503	1 379	11 318	12 098
Net assets	24 558	21 599	12 871	11 538
Hydro's share of net assets	12 279	10 799	6 411	5 750
Goodwill in Hydro's investment	-	-	1 526	1 526
Carrying value of Hydro's equity investment	12 279	10 799	7 937	7 276
Loans extended to joint ventures	-	-	-	-
Total investment	12 279	10 799	7 937	7 276

Amounts in NOK million	Qatalum	Sapa	Søral	Other	Total
December 31, 2013	9 074	7 120	330	(12)	16 512
Investments (sale), net			(340)		(340)
Hydro's share of net income (loss)	725	(313)	10		422
Hydro's share of other comprehensive income	47	468			515
Dividends and other payments received by Hydro	(942)				(942)
Foreign currency translation and other	1 896				1 896
<b>December 31, 2014</b>	<b>10 799</b>	<b>7 276</b>	<b>-</b>	<b>(12)</b>	<b>18 062</b>
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		(81)			(81)
<b>December 31, 2015</b>	<b>12 279</b>	<b>7 856</b>	<b>-</b>	<b>(12)</b>	<b>20 122</b>

Hydro acquired the remaining 50 percent ownership interests in Søral as of November 1, 2014. The transaction also included shares in Aluchemie, which was previously an associate of Hydro, see note 32 Investments in associates. As part of this transaction the shareholders' agreement was renegotiated to give Hydro joint control in significant decisions, and thus support a joint operation classification of Aluchemie.

### Note 32 - Investments in associates

The previous associate Aluminium & Chemie Rotterdam B.V. (Aluchemie) became a joint operation as of November 1, 2014, when the governing contracts were changed and Hydro acquired additional interests in Aluchemie. Until the change, Hydro owned 36.2 percent of the entity and had 21.2 percent of the voting rights. Hydro purchased anodes from Aluchemie amounting to NOK 594 million in the period January to October 2014 based on a cost plus formula. Sales of anode butts and coke from Hydro to Aluchemie amounted to NOK 66 million in the same period. Aluchemie is part of Primary Metal. Hydro had ownership interests in associates with a combined carrying value of NOK 15 million as of December 31, 2015, and NOK 20 million as of December 31, 2014.

### Note 33 - Bank loans and other interest-bearing short-term debt

Amounts in NOK million	2015	2014
Bank loans and overdraft facilities	1 275	5 242
Other interest-bearing short-term debt	345	198
Current portion of long-term debt	1 943	600
<b>Bank loans and other interest-bearing short-term debt</b>	<b>3 562</b>	<b>6 039</b>

### Note 34 - Trade and other payables

Amounts in NOK million	2015	2014
Accounts payable	6 907	7 259
Payroll and value added taxes	1 293	1 422
Accrued liabilities and other payables	1 175	981
<b>Trade and other payables</b>	<b>9 375</b>	<b>9 663</b>

## Note 35 - Long-term debt

Amounts in NOK million	2015	2014
USD	3 667	3 502
NOK	1 500	1 500
Total unsecured loans	5 167	5 002
Finance lease obligations	745	685
Other long-term debt	-	40
Outstanding debt	5 912	5 727
Less: Current portion	(1 943)	(600)
Total long-term debt	3 969	5 128

### Repayments of long-term debt including interest

Amounts in NOK million	Unsecured loans	Other	Interest	Total
2016	1 916	27	170	2 113
2017	874	28	150	1 053
2018	290	30	138	457
2019	1 792	28	132	1 953
2020	295	27	46	367
Thereafter	-	605	346	951
Total	5 167	745	982	6 894

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, 2015.

## Note 36 - Provisions

Amounts in NOK million	2015			2014		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Product warranties	43	1	44	39	3	42
Environmental clean-up and asset retirement obligations (ARO)	143	2 198	2 340	88	2 012	2 100
Employee benefits	548	422	969	272	433	705
Insurance	167	-	167	228	-	228
Unfavorable contracts and onerous contracts	101	401	503	225	1 261	1 485
Other	145	243	388	275	285	560
Total provisions	1 147	3 264	4 411	1 125	3 993	5 118

The following table includes a specification of changes to provisions for the year ending December 31, 2015 and the expected timing of cash outflows relating to the provisions.



Amounts in NOK million	Warranties	Environmental clean-up and ARO	Employee benefits	Insur- ance	Contracts	Other	Total
<b>Specification of change in provisions</b>							
December 31, 2014	42	2 100	705	228	1 485	560	5 118
Additions	110	350	889	7	281	327	1 965
Used during the year	(94)	(110)	(605)	(68)	(65)	(58)	(1 000)
Reversal of unused provisions	(16)	(30)	(34)	-	(1 200)	(378)	(1 658)
Accretion expense and effect of change in discount rate	-	80	9	-	2	-	91
Foreign currency translation	2	(49)	5	-	-	(63)	(105)
December 31, 2015	44	2 340	969	167	503	388	4 411
<b>Timing of cash outflows</b>							
2016	43	143	548	167	101	145	1 147
2017-2020	1	1 124	198	-	399	166	1 888
Thereafter	-	1 073	224	-	2	77	1 376
	44	2 340	969	167	503	388	4 411

Provisions for environmental clean-up relate to production facilities currently in operation and facilities that are closed. Asset retirement obligations relate to restoration or rehabilitation of industrial or mining sites, disposal of contaminated material and 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.

Insurance provisions relate to insurance contracts issued by Hydro's captive insurance company, Industriforsikring AS, to external parties including associates and joint arrangements. Related reinsurance receivables included in Accounts receivables amounted to NOK 1 million as of December 31, 2014.

Contracts comprise onerous contracts and unfavorable contracts. Onerous contracts relate to rental of premises. Unfavorable contracts as of December 31, 2014 related to power purchase contracts in Sørøra determined to be at unfavorable terms at the time of acquisition date. The provision for these power contracts has been reclassified to Other liabilities, presented as Reversal of unused provisions in the table above.

Other includes provisions for legal and other disputes, and certain exit and disposal activities.

### Note 37 - 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.

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 in 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 make us exposed 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 3.2 billion. About half of the amount is 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. Hydro has provided for individual tax cases where the risk of loss is considered above 50 percent.

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 36 Provisions. For many of our industrial sites, in particular sites where operation is expected to continue indefinitely, closure and remediation methods have not been assessed in any detail, and cost estimates for such sites are uncertain. For some sites, the exact level of pollution may also be uncertain. For the newly closed Kurri Kurri site in Australia, remediation plans are under development and an approval process with local authorities is started. The probable costs, amounting to about NOK 470 million, have been provided for; though additional costs may be required should our proposed remediation methods not be approved. There is also uncertainty related to possible additional remediation actions and costs for the previous alumina refinery site in Schwandorf, Germany. The currently planned and approved remediation actions ends in 2021, and possible further need and cost is unknown. Additional obligations beyond the provided about NOK 380 million for this site and others may be identified in the future related to existing contamination or other factors.

Hydro is also exposed to legal cases based on contractual or other basis.

Hydro is of the opinion that it is not probable that any liabilities resulting from such possible liabilities will have a material adverse effect on its consolidated results of operations, liquidity or financial position.

### Note 38 - 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, Italy 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.

Amounts in NOK million	2015				2014			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
<b>Pension expense</b>								
Defined benefit plans	164	164	3	331	165	124	2	291
Defined contribution plans	80	-	44	124	48	-	32	80
Multiemployer plans	55	-	2	57	37	-	2	39
Termination benefits and other	58	2	14	74	29	4	14	47
Social security cost	41	-	-	41	55	-	-	55
Pension expense	398	166	63	627	334	128	50	512
Interest expense (income)	28	164	23	215	(8)	194	3	189
Remeasurement (gain) loss in other comprehensive income	(609)	(498)	(1)	(1 109)	1 693	1 502	67	3 262

Amounts in NOK million	2015				2014			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
<b>Recognized defined benefit assets and liability</b>								
Defined benefit obligation major plans	(13 044)	(8 116)	(92)	(21 252)	(13 278)	(8 040)	(87)	(21 405)
Plan assets	12 298	-	108	12 406	11 951	-	94	12 045
Reimbursement rights	325	-	-	325	344	-	-	344
Liability other plans	(57)	(40)	(248)	(345)	(52)	(36)	(269)	(357)
Social security cost	(533)	-	-	(533)	(542)	-	-	(542)
Net defined benefit liability	(1 012)	(8 156)	(232)	(9 400)	(1 577)	(8 076)	(262)	(9 915)
Recognized prepaid pension	3 317	49	16	3 382	2 826	48	7	2 881
Recognized pension liability	(4 329)	(8 205)	(248)	(12 782)	(4 403)	(8 124)	(269)	(12 796)
Net amount recognized	(1 012)	(8 156)	(232)	(9 400)	(1 577)	(8 076)	(262)	(9 915)

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

Amounts in NOK million	2015				2014			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
<b>Change in defined benefit obligation (DBO)</b>								
Opening Balance	(13 278)	(8 040)	(87)	(21 405)	(11 681)	(6 000)	(69)	(17 751)
Current service cost	(152)	(164)	(4)	(319)	(155)	(111)	(3)	(269)
Past service cost and curtailment gain (loss)	-	-	-	-	-	(13)	-	(13)
Interest expense	(292)	(164)	(3)	(459)	(457)	(194)	(3)	(654)
Actuarial gain (loss) demographic assumptions	-	-	1	1	-	-	-	-
Actuarial gain (loss) economic assumptions	278	513	9	800	(2 125)	(1 521)	(8)	(3 654)
Experience gain (loss)	(161)	(15)	1	(175)	117	19	-	135
Benefit payments	617	257	2	876	595	240	1	836
Termination benefits	(57)	-	-	(57)	(68)	-	-	(68)
Settlements	-	-	-	-	812	-	6	817
Business combinations	-	-	-	-	(315)	-	-	(315)
Effects of foreign currency translation	-	(503)	(11)	(514)	-	(459)	(10)	(469)
Closing Balance	(13 044)	(8 116)	(92)	(21 252)	(13 278)	(8 040)	(87)	(21 405)

#### Change in pension plan assets

Opening Balance	11 951	-	94	12 045	11 868	-	77	11 946
Interest income	269	-	3	272	471	-	3	474
Return on plan assets above (below) interest income	474	-	(2)	471	351	-	5	356
Contributions to plans	88	-	3	91	238	-	4	242
Benefit payments	(483)	-	(2)	(485)	(465)	-	(1)	(465)
Settlements	-	-	-	-	(812)	-	(6)	(818)
Business combinations	-	-	-	-	299	-	-	299
Effects of foreign currency translation	-	-	12	12	-	-	12	12
Closing Balance	12 298	-	108	12 406	11 951	-	94	12 045

Amounts in NOK million	2015				2014			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
<b>Analysis of the defined benefit obligation (DBO)</b>								
Active members	(3 779)	(3 897)	(47)	(7 724)	(3 899)	(3 845)	(44)	(7 788)
Deferred members	(698)	(592)	(16)	(1 306)	(696)	(648)	(17)	(1 361)
Pensioners	(8 567)	(3 627)	(29)	(12 223)	(8 683)	(3 547)	(25)	(12 256)
Defined benefit obligation	(13 044)	(8 116)	(92)	(21 252)	(13 278)	(8 040)	(87)	(21 405)
Weighted average duration (years)	13.5	18.1			13.9	18.6		

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 750 million for 2015 and about NOK 700 million for 2014. Hydro's cash impact is expected to remain at the level of 2015 over at least the next 3-5 years.

Hydro's main pension plans are offered in Norway and Germany. The plans are described below:

### Norway

In Norway the majority of plan members are covered by defined contribution plans. A significant share of the employees and retired 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 plans providing benefits based on salaries up to a maximum level are subject to tax deduction. These 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 defined benefit plans are closed for new members, and members below a certain age has been transferred to the defined contribution plans. Employees who converted to the defined contribution plans are paid compensation for the calculated difference in pension capital at normal retirement date as a monthly cash amount. Employees who are covered by defined contribution plans for salaries up to the tax deductible ceiling are covered by additional unfunded contribution based plans for salaries above the ceiling. 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.

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	Benefit expense	Benefit obligation	Benefit expense
	2015	2015	2014	2014
Discount rate	2.60%	2.25%	2.25%	4.00%
Expected salary increase	2.25%	2.25%	2.25%	3.25%
Expected pension increase	1.25%	1.00%	1.00%	1.25%
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	2015	2015
Discount rate increase 0.5% point	6.4%	835
Salary increase 0.5% point	(1.4%)	(183)
Pension increase 0.5% point	(6.2%)	(809)
One year longer life all members	(4.2%)	(548)

The plan assets in the funded plans provided through Norsk Hydros Pensjonskasse were invested as follows at the end of 2015 and 2014:

Amounts in NOK million, except percent	2015	2015	2014	2014
Cash and cash equivalents	1.5%	179	1.4%	162
Equity instruments Norway	17.2%	2 060	15.7%	1 881
Equity instruments other countries	17.1%	2 048	14.2%	1 692
Debt instruments	36.2%	4 351	39.2%	4 679
Investment funds	7.8%	939	9.8%	1 166
Real estate	20.2%	2 428	19.7%	2 359
Other	-	-	0.1%	13
<b>Total</b>	<b>100.0%</b>	<b>12 005</b>	<b>100.0%</b>	<b>11 951</b>

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.

To match the shorter maturity of liabilities and high pay-out ratio from the schemes we plan to reduce amounts invested in investment funds and increase debt instruments.

## Germany

In Germany, the majority of plan members are covered by defined benefit plans that offer benefits based on final salary level and the number of years in service. The main plans are unfunded. Hydro's main plans are closed for new entrants, and all new employees are now offered benefits under new defined contribution-oriented plans. These plans are unfunded and treated as defined benefit plans for financial reporting purposes.

Significant actuarial assumptions for the main German plans include:

	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Weighted-average assumptions	2015	2015	2014	2014
Discount rate	2.3%	2.1%	2.1%	3.3%
Expected salary increase	2.8%	2.8%	2.8%	2.8%
Expected pension increase	1.7%	2.0%	2.0%	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	2015	2015
Discount rate increase 0.5% point	8.3%	673
Salary increase 0.5% point	(2.2%)	(175)
Pension increase 0.5% point	(6.2%)	(501)
One year longer life all members	(3.9%)	(314)

## Note 39 - Shareholders' equity

### Share capital

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
December 31, 2013	2 068 998 276	(30 209 243)	2 038 789 033
Treasury shares reissued to employees		1 043 255	1 043 255
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

The share capital of Norsk Hydro ASA as of December 31, 2015 and 2014 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, 2015 of NOK 913 million was comprised of NOK 30 million share capital and NOK 883 million retained earnings.

### 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 2,041,000,645 for 2015 and 2,039,501,461 for the year 2014.

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.

### Change in Other components of equity

The table below specifies the changes in Other components of equity for 2015 and 2014.

Amounts in NOK million	2015	2014
<b>Items that will not be reclassified to income statement:</b>		
<b><i>Remeasurement postemployment benefits</i></b>		
January 1	(903)	1 438
Remeasurement postemployment benefits during the year	1 109	(3 262)
Reclassified to retained earnings on sale of subsidiaries	-	(1)
Deferred tax offset	(345)	922
December 31	(140)	(903)
<b><i>Remeasurement postemployment benefits equity accounted investments</i></b>		
January 1	(96)	40
Remeasurement postemployment benefits during the year	126	(150)
Reclassified to retained earnings on sale of subsidiaries	-	14
December 31	30	(96)
<b>Items that will be reclassified to income statement:</b>		
<b><i>Currency translation differences</i></b>		
January 1	(2 451)	(9 455)
Currency translation differences during the year	(2 111)	6 734
Reclassified to Net income on sale of foreign operations	(20)	270
December 31	(4 581)	(2 451)
<b><i>Unrealized gain (loss) on securities</i></b>		
January 1	47	(42)
Unrealized gain on available-for-sale securities	23	138
Reclassified to Net income on sale or impairment of available-for-sale securities	-	-
Tax expense	(8)	(48)
December 31	62	47
<b><i>Cash flow hedges - See note 14 Derivative instruments and hedge accounting</i></b>		
January 1	(345)	(354)
Period gain (loss) recognized in Other comprehensive income	117	(35)
Reclassification of hedging gain (loss) to Net income	(6)	55
Tax expense	(38)	(11)
December 31	(273)	(345)
<b><i>Other components of equity in equity accounted investments</i></b>		
January 1	547	(118)
Period gain recognized in Other comprehensive income	506	666
Reclassified to Net income	(3)	-
December 31	1 050	547
Total other components of equity attributable to Hydro shareholders as of December 31	(2 107)	(2 187)
Total other components of equity attributable to non-controlling interests as of December 31	(1 745)	(1 014)

## Note 40 - 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.

### 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, rating under review for possible downgrade. Outcome expected within first quarter 2016). 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 funding requirements centrally to cover group operating requirements and long-term capital needs. During 2015 net cash provided by continuing operations was more than sufficient to cover operating requirements and capital expenditures as well as dividend payments.

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 2015, however the Nordic Investment Bank loan was repaid in full.

Hydro has a syndicated USD 1,700 million revolving credit facility maturing in 2020. As of December 31, 2015 there was no borrowing under the facility.

### 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 jointly controlled entities 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 competitive return compared with alternative investments in similar companies. Our policy is 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 debt to Equity ratio to assess the group's financial standing and outlook. Net debt is defined as Hydro's short- and long-term interest-bearing debt adjusted for Hydro's liquidity positions. Adjusted net debt is adjusted for liquidity positions regarded unavailable for servicing debt, pension obligations and other obligations which are considered debt-like in nature.

The ability to generate cash compared to financial liabilities is an important measure of risk exposure and financial stability. Hydro's management uses Funds from operations and the ratio Funds from operations to Adjusted net debt as capital management measures. Funds from operations is defined as Operational cash flow before net operating capital changes, with reversal of taxes paid and inclusion of current taxes, pro-rata consolidation of equity accounted investments, and certain other adjustments.

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 financial risk profile.

Adjusted net debt, Equity and the above mentioned financial ratios are presented in the following table.



**Adjusted net debt to equity**

Amounts in NOK million, except ratio	2015	2014
Cash and cash equivalents	6 917	9 253
Short-term investments	5 752	1 786
Bank loans and other interest-bearing short-term debt	(3 562)	(6 039)
Long-term debt	(3 969)	(5 128)
Net cash (debt)	5 138	(127)
Cash and cash equivalents and short-term investments in captive insurance company <sup>1)</sup>	(1 129)	(1 091)
Net pension obligation at fair value, net of expected income tax benefit <sup>2)</sup>	(7 955)	(8 170)
Operating lease commitments, net of expected income tax benefit <sup>3)</sup>	(1 187)	(1 600)
Short- and long-term provisions net of expected income tax benefit, and other liabilities <sup>4)</sup>	(3 040)	(2 598)
Net debt in EAI <sup>5)</sup>	(8 011)	(7 295)
Adjusted net debt incl. net debt equity accounted investments	(16 184)	(20 882)
<b>Total equity</b>	<b>(79 329)</b>	<b>(79 941)</b>
<b>Adjusted net debt including EAI / Equity</b>	<b>0.20</b>	<b>0.26</b>
<b>Funds from operations / Adjusted net debt including EAI</b>	<b>0.89</b>	<b>0.42</b>

- 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 1,445 million and NOK 1,745 million, respectively, for 2015 and 2014.
- 3) Operating lease commitments are discounted using a rate of 1.33 percent and 1.41 percent for 2015 and 2014, respectively. The expected tax benefit on operating lease commitments is estimated at 30 percent.
- 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 41 - 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 40 Capital management.

For fiscal year 2015 the Board of Directors has proposed a dividend of NOK 1.00 per share to be paid in May 2016. The Annual General Meeting, scheduled to be held May 2, 2016, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 2,042 million. In accordance with IFRS, the fiscal year 2015 proposed dividend is not recognized as a liability in the 2015 financial statements.

Dividends declared and paid in 2015 and 2014 for the prior fiscal year, respectively, are as follows:

	Paid in 2015 for fiscal year 2014	Paid in 2014 for fiscal year 2013
Dividend per share paid, NOK	1.00	0.75
Total dividends paid, NOK million	2 042	1 530
Date proposed	February 10, 2015	February 11, 2014
Date approved	May 6, 2015	May 7, 2014
Dividend payment date	May 18, 2015	May 19, 2014

Dividends to non-controlling shareholders in Hydro's subsidiaries are reported as dividends in Consolidated statements of changes in equity.

## Note 42 - Guarantees

Amounts in NOK million	2015	2014
Guarantees related to joint ventures	-	26
Sales guarantees	3 581	3 519
Total guarantees not recognized	3 581	3 545

Guarantees in connection with the sale of companies, referred to as sales guarantees in the table above, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. In addition, Hydro has certain guarantees relating to sales of companies that are unspecified in amount and unlimited in time. No amounts relating to such guarantees are included in the table above. Hydro believes that the likelihood of any material liability arising from guarantees relating to sales of companies is remote. A provision of about NOK 100 million is recognized related to the sales guarantee for Sapa, see note 31 Investments in joint arrangements.

## Note 43 - Contractual commitments and other commitments for future investments

Amounts in NOK million	2016	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	3 200	156	3 356
Additional authorized future investments in property, plant and equipment	1 505	326	1 831
Contract commitments for other future investments	29	-	29
Total	4 734	482	5 216

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, 2015 are shown in the table below:

Amounts in NOK million	Bauxite, alumina and aluminium	Energy related	Other	Sales commitments
2016	7 054	9 310	2 492	(15 744)
2017	6 101	8 176	2 290	(10 621)
2018	4 987	7 725	1 521	(5 820)
2019	4 183	5 257	1 234	(3 319)
2020	4 239	5 249	843	(2 284)
Thereafter	26 132	24 730	10 575	(13 652)
Total	52 696	60 448	18 955	(51 439)

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 2016 and 13.3 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. Further has Hydro additional long-term purchase and sales commitments which include variable elements that are not included in the table above.

## Note 44 - Cash flow information

### Reconciliation of cash and cash equivalents

Amounts in NOK million	2015	2014
Cash and cash equivalents	6 917	9 253
Bank overdraft	-	(5)
Cash, cash equivalents and bank overdraft	6 917	9 248

### Cash disbursements and receipts included in cash from operations

Amounts in NOK million	2015	2014
Income taxes paid	1 779	1 814
Interest paid	338	473
Interest received	279	275
Other dividends received	10	21

In 2015 and 2014, non-cash investing activities for asset retirement costs amounted to NOK 290 million and NOK 85 million, respectively.

In 2014, Purchases of other long-term investments amount to net proceeds of NOK 166 million, including cash and cash equivalents in Søral at the date of acquisition which exceeded Hydro's payment for the shares.

## Note 45 - Auditor remuneration

KPMG is the Group auditor of Norsk Hydro ASA.

The following table shows fees to KPMG for 2015 and 2014. For all categories the reported fee is the recognized expense for the year.

Amounts in NOK million	1) Audit	Audit related	Other 2) services	Tax related	Total
<b>2015</b>					
Norway	12	-	1	-	14
Outside Norway	12	-	-	-	12
Total	25	1	1	-	27
<b>2014</b>					
Norway	11	1	2	-	14
Outside Norway	11	-	-	-	11
Total	22	1	2	-	25

1) Audit includes audit fee to other auditors than KPMG for two subsidiaries.

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

## Financial statements Norsk Hydro ASA

Amounts in NOK million	Notes	2015	2014
Revenue		231	229
Gain (loss) on sale of subsidiaries and associates, net		57	-
<b>Total operating income</b>		<b>288</b>	229
Employee benefit expense	2, 3	333	299
Depreciation and impairment	4, 5	22	9
Other		627	337
<b>Total operating expenses</b>		<b>982</b>	645
<b>Operating loss</b>		<b>(694)</b>	(416)
Financial income, net	6	3 387	1 412
Income before tax		2 693	996
Income taxes	7	(314)	(366)
<b>Net income</b>		<b>2 379</b>	630
<b>Appropriation of net income and equity transfers</b>			
Dividend proposed		(2 042)	(2 040)
Retained earnings		(337)	1 410
<b>Total appropriation</b>		<b>(2 379)</b>	(630)

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

Amounts in NOK million, December 31	Notes	2015	2014
<b>Assets</b>			
Intangible assets	5	29	39
Intangible assets		29	39
Property, plant and equipment	4	178	190
Shares in subsidiaries	8	56 573	56 666
Receivables from subsidiaries		17 367	15 597
Financial derivatives subsidiaries	11	273	295
Prepaid pension, investments and other non-current assets	2, 10	3 771	3 492
Total financial non-current assets		77 984	76 050
Receivables from subsidiaries		2 698	6 206
Prepaid expenses and other current assets	11	228	235
Short-term investments		4 550	500
Cash and cash equivalents		4 947	7 370
Total current assets		12 423	14 311
Total assets		90 614	90 590
<b>Equity and liabilities</b>			
<b>Paid-in capital</b>			
Share capital	14	2 272	2 272
Treasury shares	14	(30)	(32)
Paid-in premium	14	28 987	28 987
Other paid-in capital	14	81	57
<b>Retained earnings</b>			
Retained earnings	14	27 057	26 518
Treasury shares	14	(883)	(940)
Equity	14	57 484	56 862
Long-term provisions	2, 10	3 463	2 999
Long-term debt	13	2 663	2 976
Payables to subsidiaries		7 152	6 676
Other long-term liabilities		9 815	9 653
Bank loans and other interest-bearing short-term debt		586	575
Dividends payable		2 042	2 040
Payables to subsidiaries		16 553	17 799
Other current liabilities	7	670	662
Total current liabilities		19 851	21 075
Total equity and liabilities		90 614	90 590

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

**Statements of cash flows**

Amounts in NOK million	2015	2014
Net income	2 379	630
Depreciation and impairment	22	9
Net foreign exchange gain	(1 236)	(1 202)
Changes in receivables and payables, and other items	1 098	393
Net cash provided by (used in) operating activities	2 263	(170)
Purchases of short-term investments	(5 050)	(1 500)
Proceeds from sales of short-term investments	1 000	2 250
Net sales (purchases) of other investments	148	(30)
Net cash provided by (used in) investing activities	(3 902)	720
Dividends paid	(2 042)	(1 530)
Proceeds from shares issued	35	21
Other financing activities, net	1 010	1 038
Net cash used in financing activities	(997)	(471)
Foreign currency effects on cash	213	212
Net increase (decrease) in cash and cash equivalents	(2 423)	291
Cash and cash equivalents at beginning of year	7 370	7 080
Cash and cash equivalents at end of year	4 947	7 370

*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 transactions

Realized and unrealized currency gains or losses on transactions are included in Financial income, net. Similarly, unrealized currency gains or losses on assets and liabilities denominated in a currency other than the Norwegian kroner are also 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 marketable equity and debt securities. Such securities are considered trading securities and are 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<sub>2</sub> 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<sub>2</sub> 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 is 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 can be estimated reliably.

### Share-based compensation

Norsk Hydro ASA accounts for share-based payment in accordance with NRS 15A Share-Based Payment. NRS 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's 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

In Norsk Hydro ASA the majority of plan members are covered by defined contribution plans, while a significant share is 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 plans providing benefits based on salaries up to a maximum level are subject to tax deduction. These 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 defined benefit plans are closed for new members. New employees are covered by a defined contribution plan for salaries up to the tax deductible ceiling and unfunded contribution based plans for additional salaries. In December 2013, Hydro decided to transfer additional employee groups to the defined contribution plans with effect from June 1, 2014. About 80 persons were transferred. Employees who converted to the defined contribution plan are paid compensation for the calculated difference in pension capital at normal retirement date as a monthly cash



amount. The main funded plan is managed by Norsk Hydros Pensjonskasse, a separate, regulated legal entity. Hydro's pension plans complement the public pension schemes in Norway. The plans comply with minimum requirements for pension plans in Norway.

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	2015	2014
Defined benefit plans	43	41
Defined contribution plans	7	5
Multiemployer plans	3	4
Termination benefits and other	8	(3)
Social security cost	9	11
<b>Pension expense</b>	<b>69</b>	<b>58</b>
Interest expense (income)	(10)	(40)
Remeasurement (gain) loss directly to equity	(274)	667

#### Recognized defined benefit assets and liability

Amounts in NOK million	2015	2014
Defined benefit obligation major plans	(5 402)	(5 599)
Plan assets	6 050	5 900
Reimbursement rights	325	344
Liability other plans	(3)	(5)
Social security cost	(301)	(306)
<b>Net defined benefit asset</b>	<b>669</b>	<b>334</b>
Recognized prepaid pension	3 106	2 809
Recognized pension liability	(2 437)	(2 476)
<b>Net amount recognized</b>	<b>669</b>	<b>334</b>

#### Change in defined benefit obligation (DBO)

Amounts in NOK million	2015	2014
Opening Balance	(5 599)	(5 193)
Current service cost	(41)	(39)
Interest expense	(122)	(191)
Actuarial gain (loss) economic assumptions	101	(844)
Experience gain (loss)	(46)	54
Benefit payments	313	323
Terminations benefits	(7)	(15)
Settlements	-	307
<b>Closing Balance</b>	<b>(5 402)</b>	<b>(5 599)</b>

### Change in pension plan assets

Amounts in NOK million	2015	2014
Opening Balance	5 900	5 970
Interest income	132	229
Return on plan assets above (below) interest income	219	130
Contributions to plans	25	40
Benefit payments	(226)	(234)
Settlements	-	(236)
Closing Balance	6 050	5 900

### Analysis of the defined benefit obligation (DBO)

Amounts in NOK million	2015	2014
Active members	(1 144)	(1 170)
Deferred members	(414)	(413)
Pensioners	(3 844)	(4 016)
Defined benefit obligation	(5 402)	(5 599)

Assumptions	Benefit obligation 2015	Benefit expense 2015	Benefit obligation 2014	Benefit expense 2014
Discount rate	2.60%	2.25%	2.25%	4.00%
Expected salary increase	2.25%	2.25%	2.25%	3.25%
Expected pension increase	1.25%	1.00%	1.00%	1.25%
Mortality basis	K2013	K2013	K2013	K2013

See note 38 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 2015 and 2014. Fees for other services were NOK 1 million in both 2015 and 2014.

The average number of employees in Norsk Hydro ASA was 232 in 2015 as compared to 227 in 2014. As of year end 2015 and 2014, Norsk Hydro ASA employed 233 and 231 employees, respectively.

Total loans given by Norsk Hydro ASA to Norwegian employees as of December 31, 2015 were NOK 116 million. Loans to employees consist of NOK 64 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of December 31, 2015 related to the employee share purchase plan was NOK 13 million.

A substantial 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	2015	2014
<b>Employee benefit expense:</b>		
Salaries	341	311
Social security costs	46	43
Social benefits	-	2
Pension expense (note 2)	69	58
Internal invoicing of payroll related costs	(123)	(115)
<b>Total</b>	<b>333</b>	<b>299</b>

## Note 4 - Property, plant and equipment

Operating lease expense amounted to NOK 211 million in 2015 and NOK 205 million in 2014. The company has the following future operating lease commitments under non-cancellable leases: 2016: NOK 48 million, 2017: NOK 48 million, 2018: NOK 48 million, 2019: NOK 48 million, 2020: NOK 48 million and thereafter: NOK 8 million.

Amounts in NOK million	Land	Buildings	Machinery, etc	Total
Cost December 31, 2014	6	201	250	456
Additions at cost	-	3	1	4
Retirements	-	-	(3)	(3)
Accumulated depreciation December 31, 2015	-	(98)	(181)	(279)
Carrying value December 31, 2015	6	105	66	178
Depreciation in 2015	-	(6)	(10)	(16)

## Note 5 - Intangible assets

Amounts in NOK million	Cost	Accumulated amortization	Carrying value
Balance December 31, 2014	82	(43)	39
Additions at cost	5		5
Disposals	(15)	6	(9)
Amortization for the year		(7)	(7)
Reversal of impairment loss		1	1
Balance December 31, 2015	72	(43)	29

Intangible assets mainly consist of software and CO<sub>2</sub> emission rights.

## Note 6 - Financial income and expense

Amounts in NOK million	2015	2014
Dividends from subsidiaries	2 036	57
Interest from group companies	430	594
Other interest income	88	94
Interest paid to group companies	(83)	(165)
Other interest expense	(166)	(146)
Net foreign exchange gain (loss)	1 236	1 202
Loss on loans to group companies	(179)	(288)
Other, net	25	64
<b>Financial income, net</b>	<b>3 387</b>	<b>1 412</b>

## Note 7 - Income taxes

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

Amounts in NOK million	Temporary differences Tax effect	
	2015	2014
Short-term items	40	18
Long-term receivables from subsidiaries	(1 123)	(779)
Pensions <sup>1)</sup>	(167)	(90)
Long-term debt	131	113
Other long-term items	287	149
Tax loss carryforwards	235	315
<b>Deferred tax assets (liabilities)</b>	<b>(597)</b>	<b>(275)</b>

1) Include NOK (70) million and NOK 180 million of tax benefit (expense) allocated directly to equity in 2015 and 2014 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	2015	2014
Income (loss) before taxes	2 693	996
Expected income taxes at statutory tax rate	727	269
Dividend exclusion	(486)	(15)
Effect of tax law change	(20)	-
Permanent differences and other, net	93	112
<b>Income taxes</b>	<b>314</b>	<b>366</b>
<b>Components of income tax</b>		
Current income tax	62	19
Change in deferred tax	252	347
<b>Income tax</b>	<b>314</b>	<b>366</b>

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

Taxes payable were NOK 181 million per December 31, 2015 and NOK 150 million per December 31, 2014.

## Note 8 - Shares in subsidiaries

Company name	Currency	Percentage of shares owned by Norsk Hydro ASA	Total share capital of the company (1,000's)	Book value (NOK million)
Hydro Aluminium AS	NOK	100.00	14 472 252	50 826
Hydro Energi AS	NOK	100.00	868 560	5 530
Hydro Aluminium Deutschland GmbH <sup>1)</sup>	EUR	25.04	73 894	92
Herøya Industripark AS	NOK	100.00	9 680	62
Norsk Hydro Plastic Pipe AS	NOK	100.00	10 000	28
Industriforsikring AS	NOK	100.00	20 000	20
Herøya Nett AS	NOK	100.00	1 760	11
Hydro Kapitalforvaltning AS	NOK	100.00	2 500	4
Total				56 573

1) The company is owned 74.96 percent by Norsk Hydro Deutschland GmbH & Co. KG, which is a subsidiary of Hydro Aluminium AS, and 25.04 percent by Norsk Hydro ASA.

Percentage of shares owned equals percentage of voting shares owned. The location of subsidiaries is indicated by the currency code used in the table or by the name of the subsidiary. Several of the above-mentioned companies also own shares in other companies.

## Note 9 - 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 6 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 112 million in 2015 and NOK 97 million in 2014. Receivables related to such costs amounted to NOK 95 million and NOK 92 million per December 31, 2015 and 2014, respectively.

Transactions with associates and jointly controlled entities consist mainly of loans to such entities owned by subsidiaries of Norsk Hydro ASA.

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 10 - Specification of balance sheet items

Amounts in NOK million	2015	2014
Securities	546	547
Prepaid pension	3 106	2 809
Other non-current assets	119	135
<b>Total prepaid pension, investments and other non-current assets</b>	<b>3 771</b>	<b>3 492</b>
Pension liability	2 437	2 476
Deferred tax liabilities	597	275
Other long-term provisions	429	248
<b>Long-term provisions</b>	<b>3 463</b>	<b>2 999</b>

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 11 - 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 2015 and 2014, the value of currency forward contracts outstanding with subsidiaries were as follows:

Amounts in NOK million	2015	2014
Currency forward contracts, short-term	25	76
Currency forward contracts, long-term	273	295
<b>Financial income, net</b>	<b>298</b>	<b>371</b>

In addition, Norsk Hydro ASA had contracts with a negative value of NOK 1 million towards the previous subsidiary Hydro Aluminium Slim S.p.A, now SLIM Aluminium S.p.A.

The contracts represent exposure mainly in US dollar and Euro. In addition, there are some contracts with exposure to Swiss franc, Danish krone, Swedish krone and Japanese yen, representing lower amounts. The contracts matures no later than 2019.

## Note 12 - 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. Guarantees in connection with the sale of companies, referred to as sales guarantees in the table below, reflect the maximum contractual amount that Norsk Hydro ASA could be liable for in the event of certain defaults or the realization of specific uncertainties. See note 42 Guarantees in the consolidated financial statements for additional information.

Amounts in NOK million	2015	2014
Guarantees related to jointly controlled entities	24	48
Commercial guarantees	4 655	4 192
Sales guarantees	1 501	1 500
<b>Total guarantees not recognized</b>	<b>6 180</b>	<b>5 741</b>

## Note 13 - Long-term debt

As of December 31, 2015, long-term debt amounted to NOK 2,663 million, of which nothing falls due after 2020. As of December 31, 2014, long-term debt amounted to NOK 2,976 million. See note 35 Long-term debt in notes to the consolidated financial statements for further information.

## Note 14 - Number of shares outstanding, shareholders and equity reconciliation

The share capital of Norsk Hydro ASA as of December 31, 2015 was NOK 2,271,760,107 consisting of 2,068,998,276 ordinary shares at NOK 1.098 per share. As of December 31, 2015 Norsk Hydro ASA had purchased 27,410,584 treasury shares at a cost of NOK 913 million. See Consolidated statements of changes in equity and note 39 Shareholders' equity for additional information.

The table shows shareholders holding one percent or more of the total 2,041,587,692 shares outstanding as of December 31, 2015, 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	128 283 170
Clearstream Banking S.A. <sup>1)</sup>	59 085 172
The Northern Trust Co. <sup>1)</sup>	58 204 857
State Street Bank and Trust Co I <sup>1)</sup>	31 514 155
The Bank of New York Mellon SA/NV <sup>1)</sup>	29 680 261
State Street Bank and Trust Co. II <sup>1)</sup>	26 370 121
J.P. Morgan Chase Bank N.A. London <sup>1)</sup>	24 225 148
State Street Bank & Trust Co. III <sup>1)</sup>	23 891 646
Euroclear Bank S.A./N.V. ('BA') <sup>1)</sup>	23 090 654

1) Nominee accounts.

### Changes in equity

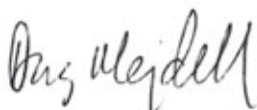
Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
December 31, 2014	31 285	25 578	56 862
Net income		2 379	2 379
Remeasurement postemployment benefits		204	204
Dividend paid in 2015 not accrued <sup>1)</sup>		(2)	(2)
Dividend proposed		(2 042)	(2 042)
Treasury shares	25	57	82
December 31, 2015	31 310	26 174	57 484

1) Owners of shares sold from treasury shares in April 2015 received dividends for those shares in May 2015. However, this was not accrued in 2014.

## Responsibility Statement

We confirm to the best of our knowledge that the consolidated financial statements for 2015 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 2015 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 2015 has been prepared in accordance with the Norwegian Accounting Act §3-3d and the Norwegian Security Trading Act §5-5a.

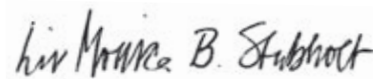
Oslo, March 10, 2016



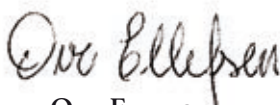
**DAG MEJDELL**  
Chair



**INGE K. HANSEN**  
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




**EVA PERSSON**  
Board member



**PEDRO JOSÉ RODRIGUES**  
Board member



**IRENE RUMMELHOFF**  
Board member



**SVEIN RICHARD BRANDTZÆG**  
President and CEO



## Auditor's report



To the Annual Shareholders' Meeting of Norsk Hydro ASA

### INDEPENDENT AUDITOR'S REPORT

#### Report on the Financial Statements

We have audited the accompanying financial statements of Norsk Hydro ASA, which comprise the financial statements of the parent company Norsk Hydro ASA and the consolidated financial statements of Norsk Hydro ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December 2015, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the balance sheet as at 31 December 2015, and the income statement and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the President and CEO's Responsibility for the Financial Statements*

The Board of Directors and the President and CEO are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the President and CEO determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion on the separate financial statements*

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norsk Hydro ASA as at 31 December 2015, and of 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.

#### *Opinion on the consolidated financial statements*

In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norsk Hydro ASA and its subsidiaries as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

## Report on Other Legal and Regulatory Requirements

### *Opinion on the Board of Directors' report and the statement on Corporate Governance*

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 and in the statement on Corporate Governance 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 the 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, 10 March 2016

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 2015 and the Auditors' report have been submitted to the corporate assembly.

The Corporate Assembly recommends that the directors' proposal regarding the financial statements for 2015 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 2015 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, March 10, 2016

Terje Venold

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 50 countries on all continents. Rooted in more than a century of experience in renewable energy production, technology development and progressive partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.

## Norsk Hydro ASA

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**HYDRO**

*Infinite aluminium*