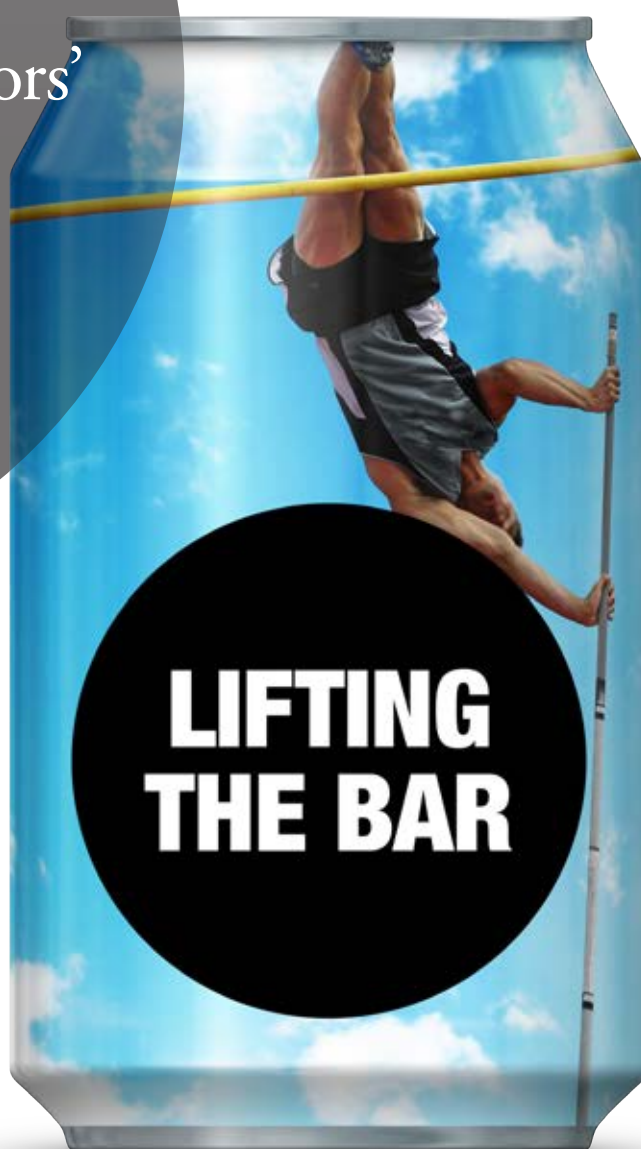




HYDRO

Financial statements  
and Board of Directors'  
Report – 2013



## Key figures

Amounts in NOK million unless other unit indicated	2013	2012
Revenue	64 880	64 181
<b>Underlying EBIT:</b> <sup>a</sup>		
Bauxite & Alumina	(1 057)	(791)
Primary Metal	1 422	335
Metal Markets	594	210
Rolled Products	627	637
Energy	1 653	1 459
Other and eliminations	(502)	(553)
Total	2 737	1 297
Net Income	(839)	(1 331)
Underlying return on average capital employed (RoACE), percent	2.2%	0.9%
Investments <sup>b</sup>	3 586	3 382
Total assets	115 235	117 357
Share price year-end, NOK	27.07	27.88
Dividend per share, NOK	0.75	0.75
Number of employees, year-end <sup>c</sup>	12 564	21 566
Recordable injuries, per million hours worked	3.4	3.4
Greenhouse gas emissions, million tonnes CO <sub>2</sub> e <sup>d</sup>	6.9	7.3

<sup>a</sup>

### Underlying EBIT

Underlying EBIT increased to NOK 2,737 million compared with NOK 1,297 million in 2012, reflecting lower costs, improved results from Qatalum and higher product premiums partly offset by lower realized aluminium and alumina prices and production disruptions at Alunorte.

<sup>b</sup>

### Investments

During 2013, Hydro continued to focus on maintaining a solid financial position and capital discipline. Investments in the year were mainly related to maintenance activities to safeguard our production assets.

<sup>c</sup>

### Number of employees

The significant decrease in the number of employees in 2013 resulted mainly from the transfer of 8,200 Hydro employees to the new Sapa joint venture from September 1, 2013.

<sup>d</sup>

### Greenhouse gas emissions

The greenhouse gas emissions from Hydro's current consolidated activities decreased by 4 percent in 2013, compared with 2012. The total emissions from our ownership equity – including indirect emissions from electricity generation – decreased by 7 percent.

## Highlights



### WELL POSITIONED

The financial crisis and subsequent weak global economic conditions have led to an industry-wide poor financial performance for the past several years. A robust financial position, focus on cash generation and ongoing improvements have enabled Hydro to view the industry challenge as an opportunity. Hydro has succeeded at defining and delivering significant improvements over and above cost inflation. In September Hydro and Orkla completed the Sapa joint venture creating a new global leader in extruded aluminium solutions.

### LIFTING THE BAR

A deeply rooted improvement culture has strengthened Hydro's position among the global leaders in the aluminium industry. Going forward, the company intends to increase the robustness of its businesses within all parts of the value chain. Hydro will leverage its strong technological orientation toward innovative solutions in close collaboration with customers. Efforts to increase energy efficiency, enhance product benefits and increase recycling will further lower operating costs, provide market opportunities and further reduce the environmental impact of our operations.

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## HYDRO'S REPORTING 2013

In addition to this separate document, Hydro's Board of Directors' report is included as an integral part of its "Annual Report – 2013".

The Board of Directors' report, together with the Financial Statements and accompanying notes and an index prepared according to the Global Reporting Initiative's (GRI) G4 protocol, 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 – 2013" is available in PDF-format on our website [www.hydro.com/reporting2013](http://www.hydro.com/reporting2013) in English. The "Board of Directors' report and Financial Statements – 2013" is also available in PDF-format as a separate document in both English and Norwegian. The GRI index is only available on web, please see [www.hydro.com/gri](http://www.hydro.com/gri).

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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## *Lifting the bar*

If you want to become better, you need to raise the bar, again and again. Always stretching for more is at the heart of Hydro's strong improvement culture.

Now it's official. Since 2009 we have managed to reduce the cost of producing one tonne of aluminium by 300 US dollars in our fully owned primary aluminium plants. This program has made us the industry's improvement benchmark. When Hydro started the program four years ago, the goal seemed out of reach and many thought it was mission impossible. I want to congratulate our determined operators, leaders and technical experts for making the impossible possible – The Hydro Way.

Even with aluminium prices touching low levels not seen since the financial crisis, Hydro's ambitious improvement programs throughout the value chain, aiming to reduce costs and increase effectiveness, have strengthened our robustness in the current weak market conditions, and improved Hydro's relative industry position.

### *Do things right – and do the right things*

Continuous improvement is an infinite process and the drive to optimize is a Hydro talent. In addition to the USD 300 program, we have re-confirmed the overall improvement targets of Bauxite & Alumina's 'From B to A' program and we've realized significant savings through the 'Climb' program in Rolled Products. Primary Metal has also launched a USD 180 program for Hydro's part-owned smelters in close cooperation with our partners.

I would like to add a special tribute to Qatalum, our joint-venture smelter in Qatar, which is performing very well and already producing value-added aluminium products at a rate above nameplate capacity. Not only is Qatalum in the best quartile on the global cost-curve, as was our aim, but is now ranking among the top 10 percent worldwide, delivering dividends even at today's low prices.

Even though two power outages offset much of this year's improvement efforts at our Brazilian alumina refinery Alunorte, Hydro has also achieved significant improvements in Brazil. New systems will ensure continued production even if the external power supply should fail, and a new pump station on the bauxite slurry pipeline between Paragominas and Alunorte will secure stable and highly efficient transportation. Alunorte is back on production levels

seen before the power outages and the Paragominas bauxite mine continues to deliver steady production improvements.

The Sapa transaction will also contribute to saving costs, with an expected NOK 1 billion in synergies by the end of 2016. But more important, the merger between Hydro's and Orkla's extrusion businesses has created the world's leading provider of aluminium solutions, with global reach and solid market positions. I wish our Hydro Extrusion colleagues all the best in the efforts to build a global champion in which Hydro holds a 50 percent stake.

Hydro is now, for the first time, the largest provider of primary foundry alloys (PFA) in the Asian market outside China. Every fourth car produced in Asia outside China now contains aluminium from Hydro. Also in Europe, we are increasing the capacity for producing automotive parts to accommodate a rapidly growing market for aluminium in cars.

### *Aiming to set new standards*

In parallel, the company continues its drive for technological leadership and setting new industry standards in safety, climate ambitions and corporate social responsibility. We are aiming to lift the bar in all areas and aspects of operations to further strengthen the company's relative position in an industry with a strong longer-term potential.

Social responsibility is an integrated part of all we do. It is all about assessing risks, planning ahead and doing our homework. In this light, CSR becomes an investment for a stronger Hydro – strategically, financially and commercially, because it reduces risk and builds trust and confidence and positions us for future business opportunities and long-term partnerships.

Our R&D efforts are key to achieve continuous improvement, and Hydro has taken steps towards taking technological leadership in the industry. The average smelter uses above 14 kWh to produce one kilo of aluminium. Hydro's HAL4e test cells in Årdal have been running on 12.5 kWh for several years. In a new test cell, HALsee, integrating all the best theories and ideas of our researchers in one cell,

we managed to break the magic 12.0 kWh barrier. We are now evaluating to build a 70,000tonne smelter technology pilot at our Karmøy plant, increasing energy-effectiveness, lowering its carbon footprint and strengthening its ability to meet customer demands on quality, reliability and innovative solutions – in short, aiming to test and develop the world's most energy-efficient electrolysis on an industrial scale. Saving energy is an excellent example that profitability and environment are not opposites, but may very well go hand-in-hand.

Unfortunately, in 2013 we did not reach our most important goal of no fatalities. In March last year, a contractor employee working at our extrusion plant in France died following an accident. Safe operations continue to be the most important factor for us, and the ambition of zero fatal accidents remains our most important goal. Hydro has never recorded fewer major accidents, environmental and security cases than in 2013, hopefully because our focus and efforts on inherent high risks are paying off.

As part of our work in social responsibility, Hydro has signed on to the UN Global Compact, participates in the World Business Council for Sustainable Development and the International Council on Mining and Metals (ICMM), and was included on the Dow Jones Sustainability Indexes and FTSE4Good list for 2013.

Hydro has launched an ambitious climate strategy, aiming to make the company carbon-neutral from a life-cycle perspective by 2020. By continuously working to reduce energy consumption and emissions in our own processes, helping our customers reduce their energy consumption and emissions through lighter and smarter aluminium solutions

and bringing more post-consumed metal back into the loop, I believe that Hydro can help save more greenhouse gases than we emit. With good help from our captive hydropower production, Hydro's carbon footprint is already among the best in our industry, and we want to stretch further.

### *More tunnel – but light at the end*

Despite challenging market conditions since the financial crisis of 2008-09, aluminium demand has continued to grow and by 2013 had risen above pre-crisis levels. Going forward, world demand outside China is expected to grow by 3-4 percent a year over the next decade, and 4-6 percent including China. The future is energy-efficient and will need more aluminium.

The aluminium market is still influenced by historical overproduction. So we will keep up the cost focus in all parts of Hydro and continue the good work performed by the business areas and staffs, characterized by determination, foresight and cooperation, enabling Hydro to move forward with better operational capabilities than ever.

Continuous improvements do work. Our electrolysis cells perform much better today than when they were brand new – 40, 20 or even 10 and 5 years ago. Imagine aiming for that with your car.

Aluminium prices continued to be low last year, but 2013 was a solid year when it comes to the quality and efficiency in our operations. I firmly believe that the continuous improvement efforts will pay off accordingly.

“The future is energy-efficient and will need more aluminium.”



Svein Richard Brandtzæg  
President & CEO



## Our Business

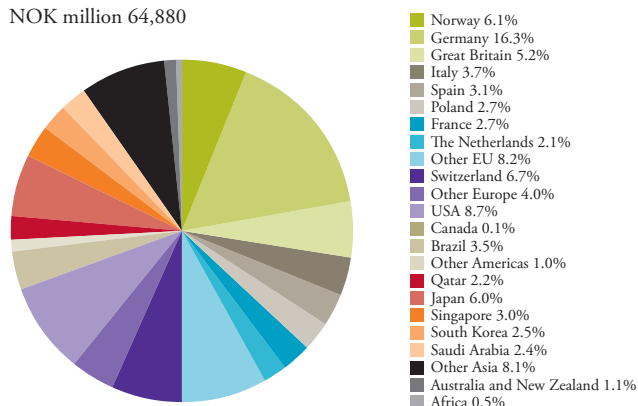
Hydro is a resource rich, fully integrated aluminium company with operations in all major activities along the aluminium industry's value chain. Our operations include one of the world's largest bauxite mines and the world's largest alumina refinery, both located in Brazil. We have primary metal production 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 2013, 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 that was completed in 2013, we aim to transform our extrusion operations and generate 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 64,880



## The Hydro Way

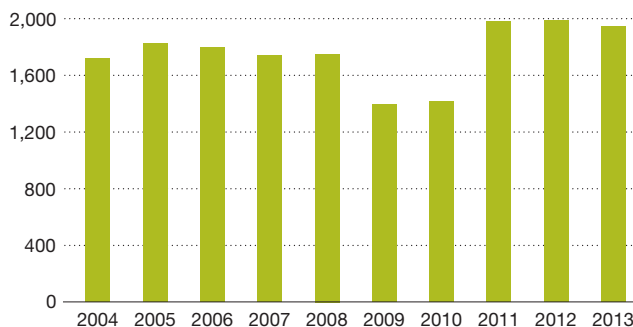
The Hydro Way is our approach to business, an approach that has existed within our company from the beginning and that has underpinned our success over the years. The Hydro Way defines our identity - our distinct set of characteristics - and constitutes a unique way of doing things that differentiates 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

1,000 metric tons



## Key developments and strategic direction

### *Well positioned in an industry with attractive long-term potential*

A deeply rooted improvement culture and relentless focus on cost reduction have strengthened Hydro's position among the global leaders in the aluminium industry.

Dedicated improvement programs in all business areas have enabled Hydro to weather an environment of continued low aluminium prices. In 2013 Primary Metal successfully completed its USD 300 improvement program generating roughly NOK 1.5 billion in annual improvements compared to 2009 cost levels. Primary Metal is targeting additional savings of USD 180 per metric ton (mt) for its global portfolio of part-owned smelters. Despite temporary setbacks, Bauxite & Alumina's From B to A program is expected to achieve its overall target by 2015. Rolled Products' Climb program has contributed to significant savings. In total, these programs are expected to generate NOK 3 billion of annual improvements going forward.

On September 1, 2013, Hydro and Orkla completed the Sapa joint venture transaction transforming their respective extrusion businesses. The transaction has improved the global reach of the combined operations and created a stronger foothold in North America and several important emerging markets. It is also expected to generate substantial synergies amounting to roughly NOK 1 billion annually by the end of 2016. Initiatives include optimization of production and sourcing activities, restructuring and rationalization of operations and increasing margins through high grading the product portfolio.

Following several years of challenging market conditions, the global aluminium market balance (excluding China) has improved somewhat. The market is expected to remain balanced in the coming year, based on expected demand growth 2-4 percent which is uncertain.

### *Pursuing a clear direction in a challenging industrial landscape*

The financial crisis and subsequent weak global economic conditions have led to an industry-wide poor financial performance for the past several years. A robust financial position, focus on liquidity and ongoing improvements over and above cost inflation have enabled Hydro to view the industry challenge as an opportunity.

Hydro has succeeded at defining and delivering significant improvements. Going forward, the company intends to

increase the robustness of its businesses within all parts of the value chain. Hydro will leverage its strong technological orientation toward innovative solutions in close collaboration with customers. Efforts to increase energy efficiency, enhance product benefits and increase recycling will further lower operating costs, provide market opportunities and further reduce the environmental impact of our operations.

Hydro has the ambition to be among the industry leaders within health, safety, environment and corporate social responsibility. In 2013, Hydro launched a new climate strategy with the aim to become carbon-neutral by 2020. Key strategic goals include reducing direct and indirect emissions, increasing the share of recycled metal in the company's production and delivering more aluminium to markets and products which contribute to CO<sub>2</sub> savings.

### *Operating performance*

Underlying EBIT improved to NOK 2,737 million from NOK 1,297 million in 2012, influenced by lower operating costs for Hydro's smelters, improved results for Qatalum and higher product premiums. Positive developments were partly offset by lower realized alumina and aluminium prices together with production disruptions relating to external power outages at Alunorte. Lower alumina production and higher alumina sourcing costs had a negative impact on underlying results for the company's bauxite and alumina operations. Bauxite production declined due to lower off-take by Alunorte. The improvement program From B to A was also affected and Hydro did not achieve the improvements targeted for 2013. However, measures were introduced to restore production and prevent future disruptions lifting average production in the final quarter to an annualized level of 5.8 million mt.

Hydro did not meet its most important target in 2013 following one fatal contractor accident. Although Hydro's safety performance is among the best in the industry, the company also did not meet its improvement target for total recordable injuries (TRI rate). Hydro's climate strategy was strengthened, but the company experienced a setback in its reforestation program in Brazil. A new third-party grievance mechanism was successfully developed in Brazil and training in the company's revised code of conduct was completed according to plan. Implementation of Hydro's enhanced people performance and development system and the company's diversity program were on schedule.

### *Priorities for 2014*

As a resource-rich, global aluminium company, Hydro is aiming to continuously improve the performance and profitability of its business without compromising on safety and compliance. Priorities in 2014 include:

- Strengthening performance within health, safety, security and environment (HSE) and corporate social responsibility (CSR)
- Providing customers with innovative and differentiated products
- Delivering on targeted cost reduction and improvement programs
- Pursuing recycling opportunities to improve earnings and reduce environmental impact
- Maximizing energy asset potential and strengthen the global support function
- Maintaining capital discipline

The ambition of no fatal accidents remains Hydro's top priority, and the company is targeting further improvement of its TRI rate for 2014 based on leadership, employee involvement and defined risk mitigating activities. The biodiversity and reforestation program in Paragominas will be further developed and strengthened.

During 2014, Hydro intends to increase the momentum of the improvement program From B to A and make significant progress toward reaching the NOK 1 billion target by the end of 2015 compared to 2011 cost levels. The program encompasses all major operating activities focusing on increased production, higher productivity, lower operating costs and lower manning as well as more effective procurement activities and increased commercial earnings. Measures to strengthen safe and sustainable business practices are also planned. Optimizing the company's global bauxite and alumina positions will continue including increased utilization of alumina index pricing.

Continuous improvement of smelter efficiency while constantly addressing cost challenges continues to be a key strategy for Primary Metal. Going forward, the company plans to maintain the improvements achieved and identify new improvement potentials.

Building on the recent success, Primary Metal is targeting additional savings for its global portfolio of part-owned smelters by the end of 2016. These programs are expected to generate annual improvements of roughly NOK 1.2 billion (Hydro's share) compared to 2011 cost levels. In particular, the company will focus on operational improvements at Albras in Brazil together with further streamlining of production and cost optimization at Qatalum in Qatar.

Product premiums have become a relatively larger share of total aluminium metal prices, and optimizing product premium margins will continue to be high on the company's agenda.

Hydro aims to be a leading player in recycled aluminium to pursue opportunities in this growing market segment and reduce the environmental impact of its operations. Recycling is an important element underlying the company's ambition to become carbon-neutral by 2020. Plans include increasing its capability and capacity to use post-consumed and other types of contaminated scrap and to increase sales of recycling friendly alloys. The most important projects currently include a used beverage can line in Hydro's Rheinwerk smelter in Neuss, Germany and increased recycling capacity in the Clervaux, Luxembourg remelter.

Securing increased returns for Rolled Products continues to be a priority under the Climb improvement program. The goal is to generate revenue and cost improvements of NOK 800 million by 2016 compared to cost levels at the end of 2011. Measures aimed at reducing operating costs and the cost-effective procurement of materials and supplies will continue in the coming years together with efforts to further increase the efficiency of production systems. Hydro intends to improve margins through high-grading its product portfolio and differentiation through innovation, quality and reliability.

Capturing the full value potential from Hydro's Norwegian hydropower assets and using its competence to secure competitive energy sources for the company's global activities is a key element of Energy's Aspiration improvement strategy. Operational excellence will continue to be a priority to secure cost effective, safe and reliable production.

Hydro aims to provide its shareholders with competitive returns compared to alternative investments in peer companies through ongoing cost reductions, efficiency improvements and product innovation. The company will continue to focus on securing its financial position through exercising strong capital discipline to ensure an optimal level of operating capital, and to maintain a sustainable level of capital expenditures to safeguard its operating portfolio. Strong cash generation and preserving Hydro's investment grade credit rating continue to be key priorities.

Within the CSR area, implementation of the new third-party grievance mechanisms for Hydro's activities in Brazil will be prioritized together with further strengthening supply chain management and a continued strong effort within integrity to ensure the zero-tolerance corruption target. Further implementation of Hydro's people strategy will continue in 2014 emphasizing the revitalized people performance and development process "My Way", diversity roadmaps to achieve long-term ambitions and programs to further develop our leadership pipeline.

### Shaping the future

The current industry environment and uncertain global economic conditions represent a significant challenge in obtaining a satisfactory return on capital for the industry as a whole. However, Hydro is well positioned for growth as the global economy evolves.

Hydro's drive for technological leadership will continue in order to raise its cost competitiveness, strengthen environmental standards and support long term growth ambitions. In 2013, the company announced it was evaluating the construction of a 70,000 mt pilot plant at Karmøy with the aim of full scale industrial testing of the world's most energy efficient smelter technology. In February, 2014, Hydro approved the construction of a new production line for aluminium car body sheet with a capacity of 150,000 mt at its rolling mill in Grevenbroich, Germany. Hydro has an attractive project portfolio including a potential new alumina refinery in Barcarena, close to Alunorte; the possible expansion of the Paragominas bauxite mine; the potential of doubling the capacity of the Qatalum smelter and the possibility to expand the Alouette smelter in Canada. Partnerships and joint ventures across the value chain provide the potential for further developing Hydro's asset portfolio. However, investments in these projects will require an improvement in the balance between industry production capacity and market demand.

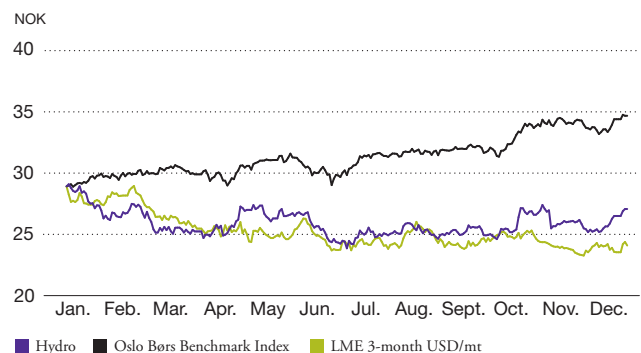
Hydro is committed to maintaining the viability of the company's global business operations and is working systematically to ensure stable, predictable framework conditions in the countries where it operates.

### Investor information

Hydro's share price closed at NOK 27.07 at the end of 2013.

Hydro's Board of Directors proposes to pay a dividend of NOK 0.75 per share for 2013 reflecting the company's strong commitment to provide a cash return to its shareholders. The dividend reflects our operational performance for 2013 and a strong financial position, also taking into consideration the uncertain market outlook.

### Share price development in 2013



### Financial results

#### Underlying operating results

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.

**Key financial information**

NOK million, except per share data	Year 2013	Year 2012
Revenue	64 880	64 181
Earnings before financial items and tax (EBIT)	1 674	571
Items excluded from underlying EBIT <sup>1)</sup>	1 063	725
<b>Underlying EBIT</b>	<b>2 737</b>	<b>1 297</b>
<i>Underlying EBIT :</i>		
Bauxite & Alumina	(1 057)	(791)
Primary Metal	1 422	335
Metal Markets	594	210
Rolled Products	627	637
Energy	1 653	1 459
Other and eliminations <sup>2)</sup>	(502)	(553)
<b>Underlying EBIT</b>	<b>2 737</b>	<b>1 297</b>
<b>Underlying EBITDA</b>	<b>7 119</b>	<b>5 827</b>
Underlying income (loss) from discontinued operations <sup>2)</sup>	220	(5)
<b>Net income (loss)</b>	<b>(839)</b>	<b>(1 331)</b>
<b>Underlying net income (loss)</b>	<b>1 610</b>	<b>408</b>
Earnings per share <sup>3)</sup>	(0.45)	(0.65)
<b>Underlying earnings per share <sup>3)</sup></b>	<b>0.65</b>	<b>0.21</b>
<i>Financial data:</i>		
Investments <sup>4)</sup>	3 586	3 382
Adjusted net interest-bearing debt <sup>5)</sup>	(9 503)	(8 304)

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

	Year 2013	Year 2012	% change prior year
Alumina production (kmt)	5 377	5 792	(7) %
Primary aluminium production (kmt)	1 944	1 985	(2) %
Realized aluminium price LME (USD/mt)	1 902	2 080	(9) %
Realized aluminium price LME (NOK/mt) <sup>7)</sup>	11 160	12 047	(7) %
Realized NOK/USD exchange rate <sup>7)</sup>	5.87	5.79	1 %
Metal products sales, total Hydro (kmt) <sup>8)</sup>	3 164	3 254	(3) %
Rolled Products sales volumes to external market (kmt)	941	909	4 %
Power production (GWh)	10 243	10 307	(1) %

1) See section Items excluded from underlying EBIT and net income in Hydro's Annual Report - 2013 for more information on these items.

2) Other and eliminations includes Hydro's 50 percent share of underlying net income from Sapa beginning September 2013. Underlying income (loss) from discontinued operations includes results from Hydro's Extruded Products business for all prior periods.

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 exclude amounts relating to Extruded Products for all periods presented. Investments for the full year 2013 include non-cash elements relating to capitalized lease obligations and the Vigeland acquisition.

5) See note 35 Capital Management in Hydro's Financial statements - 2013 for a discussion of the definition of adjusted interest bearing debt. From the third quarter 2012, net interest bearing debt in equity accounted investments is excluded from our reported adjusted interest bearing debt following the termination of Hydro's guarantee of Qatalum debt.

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

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

8) Includes sales from integrated casthouses, liquid metal from Karmøy, Neuss, remelters, 100 percent of Albras, and third party sources.

Bauxite & Alumina incurred an underlying loss in 2013, increasing from the previous year. Developments were impacted by lower LME-linked alumina prices and production disruptions at Alunorte resulting in lower alumina production and higher alumina sourcing costs. Bauxite production declined due to lower off-take by Alunorte.

Underlying EBIT for Primary Metal increased significantly for the year influenced by improved results for Qatalum and lower operating costs also impacted by currency developments. Lower realized aluminium prices had a negative impact on underlying EBIT. However, this was mostly offset by a higher margin contribution from casthouse operations and improvements relating to Hydro's USD 300 program. Lower operating costs and higher casthouse margins had a positive effect on Qatalum underlying results for the year.

Metal Markets underlying EBIT increased in 2013 due to higher margins from our remelt operations, together with significant positive currency and ingot inventory valuation effects compared with substantial negative effects for 2012. Metal product sales excluding ingot trading declined compared with 2012 mainly due to plant closures and curtailments completed during 2012. Sourcing and trading activities delivered continued good results in 2013.

Underlying EBIT for Rolled Products was stable compared to 2012 which included significant positive currency effects on export sales.<sup>9)</sup> Excluding currency effects, underlying EBIT improved due to higher volumes and improvements relating to Rolled Products' Climb program. Shipments increased for most product applications supported by improved market demand. Average net margins excluding currency effects were stable. Hydro divested its rolling mill in Malaysia at the end of 2013.

Underlying EBIT for Energy increased in 2013 due to higher prices, somewhat offset by higher sourcing costs. Direct production costs decreased slightly in 2013 due to lower transmission costs. In 2013, Hydro acquired the Vigeland Brug hydro power station (180 GWh) located in southern Norway.

Other and eliminations underlying EBIT in 2013 included four months of underlying results from Sapa. Developments for the period were impacted by the seasonally weak market and charges related to impairment of inventories and accounts receivable. Major improvement initiatives are underway to optimize capacity, reduce costs and improve profitability.

## Reported results

Reported Earnings before financial items and tax amounted to NOK 1,674 million in 2013. In addition to the items discussed above, reported earnings included net unrealized derivative losses and negative metal effects of NOK 598 million in total. Reported earnings also included charges of NOK 479 million relating to rationalization activities within Hydro's head office and Rolled Products, penalties of NOK 109 million relating to the settlement of ICMS tax claims in Brazil and charges of NOK 217 million primarily related to rationalization activities in Sapa. In addition, reported earnings included pension curtailment gains of NOK 390 million relating to the transition to defined contribution plans in Norway.

In the previous year, reported Earnings before financial items and tax amounted to NOK 571 million including net unrealized derivative gains and negative metal effects of positive NOK 982 million. Reported EBIT also included impairment and rationalization charges of NOK 1,832 million mainly relating to the closure of Kurri Kurri.

In 2013 Hydro incurred a loss from continuing operations of NOK 1,029 million including net foreign exchange loss of NOK 2,245 million. In the previous year Hydro incurred a loss from continuing operations of NOK 817 million including net foreign exchange loss of NOK 280 million. The net currency loss in 2013 related mainly to debt denominated in US dollars and intercompany balances denominated in Euro.

Net financial expense amounted to NOK 2,550 million in 2013 compared to NOK 629 million in the previous year.

Income taxes amounted to a charge of NOK 153 million in 2013, compared with a charge of NOK 759 million in 2012. Deferred tax credits arising from increased currency losses contributed to a reduction of income tax expense for 2013 which primarily related to power surtax in Norway.

Income from discontinued operations amounted to NOK 189 million in 2013. In the prior year, Hydro incurred a loss from discontinued operations amounting to NOK 514 million including impairment and rationalization charges of NOK 358 million and a loss on disposal of Portalex amounting to NOK 144 million.

In total, Hydro incurred a net loss of NOK 839 million in 2013, compared with a net loss of NOK 1,331 million in 2012.

9) Rolled Products incurs currency gains and losses on export sales from its Euro based operations mainly denominated in US dollars. These gains and losses impact 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.

## Liquidity, financial position, investments

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

In 2013, cash provided from continuing operating activities of NOK 5.1 billion was sufficient to cover investments of NOK 2.9 billion, as well as dividend payments of NOK 2.0 billion including 1.5 billion to Hydros shareholders and 0.5 billion relating to minority shareholders in the company's joint ventures. Net loan repayments amounted to NOK 0.8 billion. Proceeds from sale of long-term investments and property, plant and equipment of NOK 0.4 billion represented additional sources of cash. Net cash used in discontinued operations amounted to NOK 0.4 billion.

Net cash was reduced by NOK 1.0 billion, compared to the previous year, amounting to NOK 0.7 billion at the end of 2013. Adjusted net interest bearing debt excluding equity accounted investments increased by NOK 1.2 billion to NOK 9.5 billion.<sup>1)</sup> Development for the year reflected a further increase in net pension liabilities mainly due to changes in actuarial assumptions, partly offset by curtailment gains, and lower operating lease commitments. Hydro's adjusted net interest bearing debt to equity ratio was 0.21, well below its targeted maximum ratio of 0.55. The adjusted funds from operations/adjusted net interest bearing debt ratio was 0.34, somewhat below the targeted minimum of 0.40 over the business cycle.

Investments amounted to NOK 3.6 billion in 2013, compared with NOK 3.4 billion in the previous year.

Hydro expects that cash from continuing operations, together with its liquidity holdings and available credit facilities, will be sufficient to cover planned capital expenditures, operational requirements, and financing activities in 2014.

## Market developments and outlook

The global alumina market was fairly balanced at the end of 2013. Average spot prices increased slightly from 2012. Prices as a percentage of LME increased to around 17.3 percent compared with 15.6 percent in 2012. At the end 2013 spot prices represented 18.5 percent of LME.

China imported 3.8 million mt of alumina in 2013, down 24 percent from 2012. Bauxite imports into China reached record levels amounting to roughly 72 million mt, an

increase of 79 percent compared to 2012. This was in response to announced restrictions on Indonesian exports that took effect beginning January 2014.

Global demand for primary aluminium (excluding China) increased around 1 percent compared to 2012. Corresponding production declined slightly, mainly due to closures and curtailments. As a result, the market was slightly under-supplied in 2013. Demand for primary aluminium is expected to grow by about 2-4 percent in 2014. Corresponding production is expected to grow at a somewhat lower rate. Three-month LME prices were volatile but with a downward trend, ending the year around USD 1,810 per mt.

Ingot premiums remained at record levels for the first half of 2013 before falling in the third quarter, influenced by potential changes in LME warehousing rules. However, ingot premiums strengthened significantly by the end of the year. LME stocks were stable throughout the year amounting to 5.6 million mt at the end of 2013.

Demand for extrusion ingot and foundry alloys in Europe improved gradually during the year. Consumption of sheet ingot also developed positively, ending the year on a higher level than in 2012. The market for wire rod was weaker than expected and remained on a level similar to 2012. Market demand for metal products in Europe is expected to strengthen somewhat in 2014. Consumption of extrusion ingot and foundry alloys improved in the U.S. and was stable in Asia (excluding China) during 2013 and is expected to remain so in 2014. Further improvements are expected in the U.S.

The European market for flat rolled products increased by 2 percent in 2013. The automotive segment demonstrated the strongest growth during the year. Demand in the building and construction segment remained on a low level but recovered somewhat compared to the previous year. Consumption in the beverage can and foil markets was stable. General engineering showed a solid growth. Demand in the European flat rolled products market is expected to increase further in 2014.

Demand for general extruded products improved slightly in North America compared to 2012 but declined in Europe. Market conditions for building systems continued to deteriorate, in southern Europe in particular. Demand for precision tubing increased somewhat.

Nordic electricity prices increased significantly compared to 2012 driven by a negative hydrological balance throughout the year. By the end of 2013, water reservoirs in Norway were

<sup>1)</sup> The adjustments are mainly comprised of net unfunded pension obligations after tax and the present value of operating lease obligations. From the third quarter 2012, net interest bearing debt in equity accounted investments is excluded from our reported adjusted interest bearing debt following the termination of Hydro's guarantee of Qatalum debt.

68 percent of full capacity, which is at normal levels. In 2013, total power consumption in the Nordic market declined by 5 TWh to 380 TWh. Total power production declined by 22 TWh to 380 TWh. Power production in Norway reached 133 TWh, 12 TWh lower than 2012.

Hydro's Alumina refinery Alunorte will be subject to ICMS taxation on fuel oil beginning February 1, 2014 resulting in additional costs.

## Risk

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. Consequently, the business areas have the main responsibility for risk management, utilizing established policies and procedures. Their work is coordinated by staff units at the corporate level. The board of directors regularly reviews and evaluates the overall risk management system and environment within Hydro.

Hydro faces risks and uncertainties within its worldwide business operations and in the global marketplace. The company is exposed to changing economic and market conditions and there has been continued uncertainty regarding economic developments within the countries and geographic regions in which Hydro operates. Most of Hydro's operations are located in countries that have experienced strong currencies and/or inflationary pressures, which can weaken the competitive position of some of its businesses. Compensating for future market declines is dependent on the company's ability to sufficiently reduce operating costs. Hydro may not realize the benefits expected from the Sapa joint venture. Hydro's operations in Brazil represent a significant portion of the company's capital employed and Hydro may not realize the benefits expected. A deterioration of Hydro's financial position or downgrade of the company's credit rating could increase its borrowing cost and cost of capital. Hydro faces an ongoing risk of counterparty default. Price volatility can have a significant impact on Hydro's reported results. Hydro's reported and operating results and competitive position are influenced by developments in currency-exchange rates and in particular the U.S. dollar, Brazilian Real, Euro and Norwegian krone. Hydro is exposed to changing legislation and regulations in countries where it operates. Major accidents, legal proceedings or investigations and incidents relating to HSE and corporate responsibility could impose significant costs and substantially damage the company's reputation. Hydro may not be successful in attracting and retaining sufficient skilled employees.

Hydro's main strategy for mitigating risk related to volatility in cash flows is to maintain a solid financial position and strong creditworthiness. In order to protect processing and manufacturing margins against raw material price fluctuations, Hydro's downstream and other margin-based operations are hedged to a certain extent. Hydro also uses derivatives to reduce its overall financial and commercial risk exposures. Forward U.S. dollar currency contracts have been used and Hydro has, to a limited extent, entered into forward contracts in other currencies to hedge certain revenue and cost positions.

## 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 the four pillars prevention, detection, reporting and responding. In addition to financial compliance, priority areas are HSE, anti-corruption and competition law.

Hydro follows the Norwegian Code of Practice on Corporate Governance of October 2012 with the amendments for 21 December 2012. A detailed description of Hydro's compliance with the code can be found later in this report in the section "Norwegian Code of Practice on Corporate Governance." Information regarding the company's shareholder policy can be found in the section "Shareholder information."

The board's audit committee carries out a control function and arranges for the board to deal with the company's financial reporting.

## Research and development

In 2013, research and development costs recognized as an expense amounted to NOK 216 million compared to NOK 247 million in 2012.

The greater part of our R&D expenses relates to our in-house research organization, while the remainder supports work carried out at external institutions. See note 14 Research and development for more information. Our main R&D centers are in Årdal (primary aluminium technology) and Sunndal (alloys and casting) in Norway and Bonn in Germany (Rolled Products). The new joint venture Sapa has its own research centers.

In Hydro, research and development go hand-in-hand with full-scale production. Our technology efforts are concentrated on these three areas:

- Making products that promote the use of aluminium and sustainable development
- Developing the world's best electrolytic technology - the core of the aluminium company
- Using R&D and technology to ensure optimal operations

In our industry, we must start developing today the technology we will be using 10 or 20 years down the road. Smelter technology, alloys with special properties and buildings that are energy-neutral during operation are among the areas we are developing together with optimized operations throughout our value chain. All business areas are responsible for their own technology development and execution of their respective technology strategies. A corporate technology office shall ensure a holistic and long-term approach to Hydro's technology strategy and agenda. 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.

We aim at developing improved beneficiation and refinery processes for our Bauxite & Alumina business in order to enhance efficiency in the use of raw materials as well as allowing us to utilize a greater portion of the marginal bauxite ore. We are continuously working to reduce energy costs and carbon footprint through process improvements, heat recovery and alternative energy sources. Bauxite residue (also known as red mud) is an environmental concern for the alumina industry. We use state of the art dry stacking technology for our bauxite residue depositing. Hydro is planning to convert to the method of pressure filtration in order to reduce moisture further and thus reducing total volumes and run-off. Final decision is expected in 2014.

Hydro's next generation electrolytic process technology, HAL4e, has been thoroughly tested in six full-scale production cells. We are now developing this technology further. Our latest HALsee (super-efficient energy) full-scale electrolytic cell has been tested at the reference center in Årdal for about a year, with an energy consumption below 12 kWh/kg aluminium produced and with a significantly reduced anode effect. Hydro is currently studying the potential for testing our next generation electrolysis technology and the world's most energy-efficient aluminium technology in a full-scale industrial environment at a pilot plant with annual production capacity of 70,000 metric tons (mt) at Karmøy in Norway. In September 2013, Hydro asked Enova for financial support in connection with the pilot

plant. If realized, the production can start in 2017 at the earliest. The R&D in Primary Metal is also key in strengthening competitiveness by helping improve the cost position at our existing primary plants. Prioritized tasks are operational support and implementation of new technology in existing activities.

Implementing and commercializing innovative product ideas and concepts are core activities. Innovation often takes place in joint projects with the customer once needs have been identified, or we develop new or improved products based on customer demands. Numerous new products are launched every year. The carbon footprint of our solutions is gaining increasing attention and relevance, especially when looking at new applications of aluminium and when improving the environmental performance of existing ones.

## Society

Hydro has zero tolerance for corruption and human rights violations and an ambition to avoid all accidents in all our operations worldwide.

Hydro's integrity program (HIP) is our main means to prevent corruption and human rights violations. The program includes risk mapping, tools and training. HIP is based on Hydro's code of conduct which is approved by the board of directors. The code was last updated in 2012, and in 2013 we performed relevant training for all level 1, 2 and 3 leaders.

Hydro's current whistle blower channel, AlertLine, secures that employees can report breaches or perceived breaches of compliance or other integrity issues. 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 some countries, e.g. Spain and Portugal, there are, however, legal restrictions on such reporting lines.

We recognize that our activities impact the societies in which we operate, and we have a long tradition of conducting a dialog 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 new system for third party grievances for all operations in Brazil, which will be implemented in 2014. The system will work as a pilot for a systematic approach for all of Hydro.

Hydro supports the principle of freedom of association and collective bargaining and has a long tradition in maintaining a good dialog 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 minority-owned companies and with our suppliers. This is based on our commitment to ILO's eight core conventions. Hydro's policy on freedom of association, child and forced labor has also been anchored in an international frame agreement with four unions. Through joint ventures we have activities in countries where trade unions are restricted. These include Qatar, Vietnam and China, where we look for alternative forums to empower employees.

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

Hydro's supplier requirements related to corporate responsibility are 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 principles include auditing rights and the contractors' responsibility toward subcontractors and their suppliers.

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 in September 2013 we were selected for inclusion in the new UN Global Compact 100 stock index.

Our most important voluntary commitments are the support of the principles set out in the Universal Declaration of Human Rights and the UN Global Compact. We also support the OECD's Guidelines for Multinational Enterprises and report voluntarily on payments to host governments, in connection with exploration and production of bauxite and alumina, based on the principles in the Extractive Industries Transparency Initiative. Since 2011 we have been a member of the International Council on Mining

and Metals (ICMM) and are committed to following the ICMM's 10 principles and position statements. We report in accordance with the Global Reporting Initiative (GRI) G4 Guidelines for voluntary reporting of sustainable development and use the "Core" option. See the full report on [www.hydro.com/gri](http://www.hydro.com/gri)

## Environment

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 we pursue include:

- Using viable energy sources
- Reducing energy consumption and emissions in production
- Reducing CO<sub>2</sub> emissions through the use of our products
- Increasing the recycling of aluminium

The greenhouse gas emissions from Hydro's current consolidated activities decreased by 4 percent in 2013. The total emissions from our ownership equity - including indirect emissions from electricity generation - decreased by 7 percent.

Hydro's long term ambition is to be climate neutral by 2020 through 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. Specific direct emissions from our alumina refinery Alunorte in Brazil was 0.693 metric tons (mt) CO<sub>2</sub> per mt alumina in 2013. The specific emissions from electrolysis decreased from 1.62 mt CO<sub>2</sub> equivalents (CO<sub>2</sub>e) per mt primary aluminium in 2012 to 1.59 in 2013. Still, we did not achieve our target of 1.58.

Our ambition is to take a strong position in aluminium recycling. We have improved utilization of our existing capacity during the last years, and in 2013 we recycled more than 800,000 mt aluminium including 177,000 mt post-consumer scrap. We achieved a utilization rate of 96 percent

### Total payments (taxes, fees, etc.) to host governments 1)

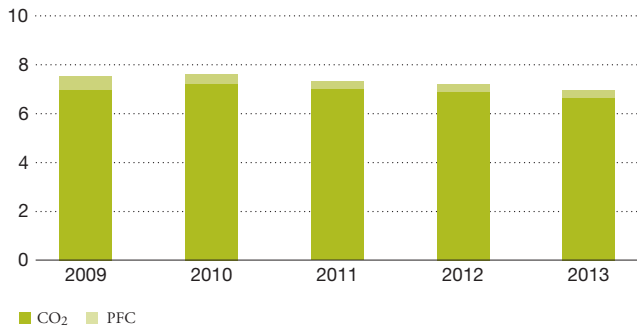
NOK million	2013	2012	2011	2010	2009
Australia	-	-	-	-	(0.7)
Brazil 2)	68	80	48	98	160

1) Total payments to host governments in connection with the exploration and production of bauxite and alumina. Payments include benefit streams, profit tax, royalty, license fees, rental fees, entry fees, etc. The reporting is based on the principles in the Extractive Industries Transparency Initiative (EITI). The table is included in auditor's review of Hydro's viability performance reporting 2013, but not in the financial audit.

2) The number for 2013 represents Paragominas entirely. Only Paragominas has other payments to host government than profit tax. Both Paragominas and Alunorte had a loss in 2013 and hence paid no profit tax.

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

Million metric tons CO<sub>2</sub>e



of our recycling facilities and thus reached our goal for 2013 to stabilize at above 90 percent. In 2014 an ambition is that the company's two main recycling projects progress within schedule and cost. The projects include a used beverage can line in Rheinwerk in Neuss, Germany and increased recycling capacity in Clervaux, Luxembourg.

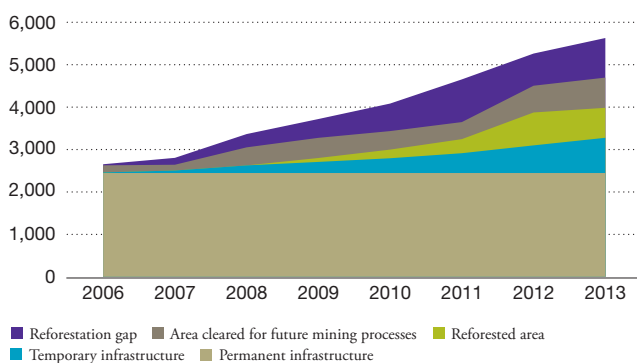
In addition to our existing climate and recycling strategies, our environmental strategy emphasizes:

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

Hydro's bauxite mining and alumina refining activities in Pará in Brazil include open pit mining and the handling of significant amounts of tailings and bauxite residue, also

## Land use and reforestation – Paragominas

Hectares



Permanent infrastructure includes areas related to administrative buildings, industrial facilities, the pipeline to Alunorte and permanent roads. Temporary infrastructure includes areas dedicated for tailing ponds.

known as red mud. Biodiversity is an important issue related to Hydro's activities in Pará and also to the water reservoirs 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.

Hydro's bauxite mining involves removing vegetation, topsoil and overburden by machinery to extract the bauxite deposits below. When bauxite extraction is finished in an area, rehabilitation starts. The reforestation program started in 2009 and will continue beyond 2040 in the present area. In total 366 hectares of land were affected during 2013 compared to 609 hectares in 2012. About 5,600 hectares have been affected since the start of the mining operations in 2006 of which 707 hectares have been reforested so far. This is a decrease from 776 hectares in 2012 when we had a setback in the reforestation program, including 177 hectares of the rehabilitation area that was part of a new method for reforestation. This area was not satisfactory due to specific local conditions, and the area has been reclassified as an area to be rehabilitated. The method has been adjusted and is being implemented in new areas with promising results so far.

Within 2017, our ambition is to achieve an area balance of 1:1 in opening of mine compared to reforestation, and to close the gap within 2020.

An annual review of our water use in 2013 revealed that about 4 percent of the overall fresh water input came from water stressed areas, with regard to annual renewable water supply (according to the definition used by WBCSD). These areas include Germany and southern 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.

With the assets in Brazil, Hydro's waste production includes significant amounts of tailings from bauxite extraction as well as bauxite residue, or red mud, from alumina refining. Waste amounts are linked to the amount of produced bauxite and alumina. Tailings consist of mineral rejects from the extraction process mixed with water. The tailings at the Paragominas bauxite mine in Brazil are stored in dedicated tailing ponds where the particles settle. Separated water is transferred to a clarification dam before being reused in the process. There is a minor run-off to the river downstream of the tailings, which is required to maintain an ecological flow. The run-off is monitored and the water quality satisfies the requirements set by the authorities. In 2013, Hydro generated 3.3 million mt of tailings compared to 4.2 million mt in 2012. The decrease was mainly due to reduced bauxite production.

Bauxite residue is a by-product of the alumina refining process. The residue is washed with water to lower the alkalinity and recover caustic soda for reuse. Residue is dry-stacked, which transforms it into a clay-like substance with a low moisture content. When full, deposit areas are reforested. Hydro is planning the conversion to pressure filtration to reduce moisture further and thus reducing total volumes and run-off. Final decision is expected in 2014. In total, 5.4 million mt (35 percent humidity) was disposed in 2013 compared to 6.1 million mt in 2012. The reduction was mainly due to reduced alumina production.

Spent potlining (SPL) from the 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.

## Employees

We did not achieve our most important target in 2013 - no fatal accidents - and our TRI rate (total recordable injuries per million hours worked) did not improve. In March a contractor employee lost his life following an accident at an extrusion plant in France. Hydro's TRI rate was 3.4 in 2013 and 2012, and not reaching our target of 2.85. Even though our safety results are among the best in our industry, Hydro's clear ambition is to improve further. Internal independent investigations are routinely initiated after fatal accidents and other serious incidents to identify the causes and reduce risk for recurrences. Our approach to improving safety performance is based on risk management, leadership qualities and shop floor engagement. An example is a company-wide, harmonized high-risk incident investigation and communication tool that was implemented in 2013.

We work continuously to avoid new occupational illnesses. The occupational illness rate in 2013 was 1.7 cases per million hours worked, down from 1.9 in 2012. Most of the reported cases are related to noise. We expect an increase in 2014 following improved reporting. To encourage further improvement of the physical environment, we have established a performance indicator based on risk assessments of the work environment.

Hydro had 12,564 permanent employees at the end of 2013, a decrease from 21,566 in 2012. In addition, we had 765 temporary employees compared to 1,161 the year before. Contractor employees represented about 7,000 full-time equivalents during 2013, down from 8,200 in 2012. The significant decrease in permanent employees followed mainly the merger between Hydro's Extrusion business with Sapa. In addition came divestments as well as improvement programs in all business areas. Following the demerger of our Extrusion business, the large majority of employees are concentrated in Brazil, Germany and Norway.

Hydro's people strategy is built on five pillars: our performance culture, competence management, leadership pipeline, diversity and mobility. In 2013 we mainly concentrated on revitalizing our people performance and development process, launching new leadership development initiatives, and initiating the implementation of a company-wide diversity program.

We emphasize diversity with regard to nationality, culture, age, gender and competence when recruiting and when forming working groups and management teams. While 87 percent of top management are Norwegian or German, only 54 percent of Hydro's employees are the same. With three women among the eight share-holder elected members in the board of directors, Hydro complies with the Norwegian legal requirements. The share of women was 29 percent in Hydro's Corporate Management Board and 25 percent among the

### Fatal accidents

Number



### Total recordable injuries

Per million hours worked



## Share of non-Norwegian leaders



## Share of women leaders



The total share of women at all levels in Hydro was 13 percent in 2013

leaders at the level below. We aim at further diversity at all levels. In 2013 we performed high-level awareness workshops on diversity, and all business areas and corporate staffs developed diversity targets and roadmaps towards 2020.

In 2013, 13 percent of Hydro's employees globally were women, compared to 15 percent in 2012. The reduction is a consequence of the demerger of Extruded Products which had a higher ratio of women than Hydro on average.

We are continually adjusting working conditions so that all employees, regardless of their operability, have the same opportunities in their work place.

Registered sick leave in Hydro was 3.7 percent in 2013, up from 3.2 percent in 2012. Legal systems and compensation regarding sick leave vary from country to country. This impacts reporting and makes comparison between countries difficult, even though we introduced common reporting definitions in 2012. Norwegian national reporting requirements are similar, but not identical, to our reporting requirements, and the national average is significantly higher than the average of Hydro in Norway. Sick leave for Hydro in Norway, according to Norwegian reporting requirements, was 5.1 percent in 2013, up from 4.6 percent in 2012.

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 short time.

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. Please see Note 10 and 11 to the consolidated financial statements for more information.

The board of directors acknowledges the invaluable efforts of Hydro's employees to turn their knowledge and experience into continuous operational improvements. The successful completion of the USD 300 program in fully owned smelters is as important to the group as it is impressive and exemplary. The board would also like to thank the employees of former Hydro Extruded Products that are now taking part in shaping the world's largest aluminium solutions provider, Sapa, in which Hydro continues to take considerable interest.

## 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. To learn more about Hydro's downstream business, the board of directors visited in 2013 Hydro's Rolled Products business in Germany including its R&D activities in Bonn, the joint venture Alunorf and a large customer.

In 2013, the board was trained in conflict of interest. The training included both general and specific examples.

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. The review is facilitated by the corporate advisory firm Lintstock. Both assessments are submitted to the nomination committee, which in turn assesses the board's composition and competence.

The board of directors held nine meetings in 2013 with an attendance of 94 percent. The compensation committee held nine meetings and the audit committee six meetings. There were no changes in the board composition in 2013.

## Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had net income of NOK 2,000 million in 2013 compared with a net loss of NOK 378 million in 2012.

Hydro's Board of Directors proposes to pay a dividend of NOK 0.75 per share for 2013 reflecting the company's strong commitment to provide a cash return to its shareholders. The dividend reflects our operational performance for 2013 and a strong financial position, also taking into consideration the uncertain market outlook.

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 11, 2014

  
TERJE VAREBERG  
Chair

  
INGE K. HANSEN  
Deputy chair

  
LIV MONICA BARGEM STUBHOLT  
Board member

  
OVE ELLEFSEN  
Board member

  
BILLY FREDAGSVIK  
Board member

  
FINN JEBSEN  
Board member

  
VICTOIRE DE MARGERIE  
Board member

  
STEN ROAR MARTINSEN  
Board member

  
DAG MEJDELL  
Board member

  
EVA PERSSON  
Board member

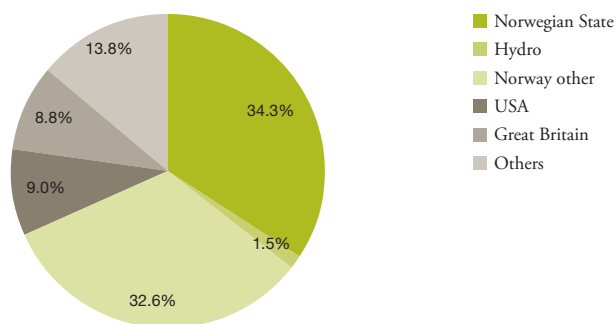
  
PEDRO JOSÉ RODRIGUES  
Board member

  
SVEIN RICHARD BRANDTZÆG  
President and CEO

## Shareholder information

Hydro's share price closed at NOK 27.07 at the end of 2013. The return for 2013 was negative with NOK 0.81, or 2.91 percent. Hydro's board of directors proposes to pay a dividend of NOK 0.75 per share for 2013, for approval by the annual general meeting on May 7, 2014, reflecting the company's strong commitment to provide a cash return to its shareholders and strong financial position.

### Geographical ownership distribution of shares



Source: Norwegian Central Securities Depository (VPS)

There were 2,038,789,033 outstanding shares at the end of 2013. A total of 1.7 billion Hydro shares were traded on the Oslo Stock Exchange during 2013, representing 5.3 percent of the total turnover on the exchange in terms of share value.

At the closing of the acquisition of Vale's aluminium assets on February 28, 2011, Hydro issued 447,834,465 new shares to Vale as part of the consideration in the transaction. Vale sold all of these shares through a book-building process which took place in November, 2013.

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 returns to shareholders should reflect the value created by Hydro. Shareholders' returns consist 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, 30 percent of net income as ordinary dividend over time to our shareholders. In setting the dividend for a specific year, we will take into consideration future 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. We pay 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, 2013, is provided in note 13 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 2013.

## Key figures for the Hydro share

	2013	2012 <sup>1)</sup>	2011	2010	2009
Share price high, Oslo (NOK)	29,09	34,24	48,24	50,30	49,25
Share price low, Oslo (NOK)	23,86	23,40	23,96	29,06	20,40
Share price average, Oslo (NOK)	25,89	27,84	36,92	38,75	33,65
Share price year-end, Oslo (NOK)	27,07	27,88	27,74	42,61	48,71
Earnings per share (EPS) (NOK)	(0.45)	(0.65)	3,41	1.33	0,25
EPS from continuing operations (NOK) <sup>2)</sup>	(0.54)	(0.39)	3,41	1.33	0,25
Dividend per share (NOK) <sup>3)</sup>	0,75	0,75	0,75	0,75	0,50
Pay-out ratio <sup>4)</sup>	-	-	22 %	56 %	200 %
Dividend growth	0%	0%	0 %	50 %	-
Pay-out ratio five year average <sup>5)</sup>	86%	176%	77 %	57 %	49 %
Adjusted debt/equity ratio <sup>6)</sup>	0.21	0.19	0.24	0.11	0,32
Credit rating, Standard & Poor's	BBB	BBB	BBB	BBB	BBB-
Credit rating, Moody's	Baa2	Baa2	Baa2	Baa2	Baa2
Non-Norwegian ownership, year-end	33%	42%	44 %	23 %	27 %
Outstanding shares, average	2 038 416 268	2 037 199 618	1 965 039 601	1 419 052 116	1 205 376 724
Outstanding shares, year-end	2 038 789 033	2 037 568 162	2 036 459 019	1 587 776 741	1 204 785 945

1) Figures for 2012 are adjusted reflecting IAS 19R

2) Extruded Products is included as discontinued operations from January 1, 2012 to August 31, 2013

3) 2013 dividend per share proposed by Board of Directors, dependent on approval from the Annual General Meeting May 7, 2014.

4) Dividend per share divided by earnings per share from continuing operations.

5) Dividend per share divided by earnings per share from continuing operations for last five years.

6) See note 35 to the Consolidated Financial Statements.

### Annual general meeting

The annual general meeting will be held at the company's headquarters at Drammensveien 260, Oslo, Norway, on Wednesday, May 7, 2014, at 15:00 CET. Shareholders who wish to attend are asked to inform the registrar by 16:00 CET on Friday, May 2:

DNB Bank ASA  
Verdipapirservise  
Postboks 1600 Sentrum  
0021 Oslo, Norway

Fax: + 47 22 48 11 71

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.

### Change of address

Shareholders registered in the Norwegian Central Securities Depository should send information on changes of address to their registrars and not directly to Hydro.

### Financial calendar 2014

April 30 – First quarter results  
May 7 – Annual general meeting  
May 9 – Shares traded ex-dividend  
May 13 – Record date for dividend  
July 22 – Second quarter results  
October 22 – Third quarter results  
November 27 – Capital markets day

## 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 2013.

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) in table format.

### *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 two 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 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 chairperson of the committee, and chairperson of the corporate assembly, has been a member of the committee since it was established in 2001 and became chairperson in 2008. The three other members were elected to the nomination committee in 2008 and 2012.

#### **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 and Industry, owns 34.26 percent of the Hydro shares (as of 31.12.2013) and has by virtue of the Active Ownership Report (Report to the Storting no. 13

(2010-2011)) clearly 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 2012. 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 progressive partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.

The company's stated business objectives 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 is to pay out an average of 30 percent of net earnings over time.

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 be acquired in the open market, and that the authority lasts no longer than until the next general meeting. Such authorization was last given in 2008.

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.

See also item 4.

*References:* Learn more about Hydro's equity and dividend policy at page 20.

#### 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 dialog directly with investors.

On February 28, 2011 the agreement to take over the majority of Vale's aluminium business in Brazil was concluded. To partly finance the transaction, support the company's investment class credit rating and capacity to implement future projects, Hydro completed a fully subscribed rights issue of NOK 10 billion in July 2010. Also in July 2010, information on the consequences of the issue for existing and new shareholders was made public in press releases, in the rights issue prospectus, in the memorandum that was prepared in connection with Hydro's takeover of the majority of Vale S.A.'s bauxite, alumina and aluminium activities in Brazil and at the extraordinary general meeting. See also items 8 and 9.

#### **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 material transactions between the group and its shareholders, board members, corporate management board or related parties in 2013.

Regulation of share issues and preemptive rights are described in the company's articles of association.

#### **State ownership**

As of December 31, 2013 the Norwegian state, represented by the Ministry of Trade and Industry, 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 21 and sale of the Hydro share to employees in note 11 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 F72.

#### 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, 2013 the Norwegian state, represented by the Ministry of Trade and Industry, owned 34.3 percent of Hydro's shares, while the Government Pension Fund Norway owned xx percent.

Under the transaction with Hydro, Vale received 22 percent of Hydro's outstanding shares. At the same time, Norwegian state ownership, represented by the Ministry of Trade and Industry, was reduced from 43.7 percent to 34.3 percent. Under the agreement between Hydro and Vale, Vale could

not increase its ownership interest in Hydro beyond 22 percent. Furthermore, Vale had to retain its shares in Hydro for at least two years after the transaction was completed in February 2011, and could not sell shares constituting more than 10 percent of Hydro's issued shares to any individual buyer or group. In November 2013 Vale divested all its shares in Hydro to several investors.

*References:* Learn more about the Hydro share at page 20.

## 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) approximately four 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 chair of the corporate assembly or, in his or her absence, by the deputy chair.

The chairperson of the board of directors, the nomination committee representative 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 22.

## 7. Nomination committee

In accordance with Hydro's articles of association, the company must appoint a nomination committee. This committee comprises four members who are either shareholders or shareholder representatives. The committee's chair and members are appointed by the general meeting of shareholders. At least two, including the chair, must be elected from among the representatives in the corporate assembly elected by the shareholders.

The general meeting of shareholders established in 2011 guidelines for the nomination committee. The general meeting 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.

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 22.

### 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: Lars Tronsgård, who is an employee of the Government Pension Fund Norway, is a member of the corporate assembly. Pedro Jose Rodrigues, who is global director of Mergers and Acquisitions in Vale S. A., is a member of the board of directors. Until November 2013 Vale possessed 22 percent of Hydro's issued shares, see item 5. Vale is also a significant supplier of bauxite and electricity to Hydro. Rodrigues abstained himself from discussions related to Vale in Hydro's board of directors due to his relationship with the company.

Two thirds of the corporate assembly and its 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 two years. The upper age limit for members of the board and the corporate assembly is 70.

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, 2013, seven of the board's directors own a total of 117,116 shares. Hydro has no share purchase program for board members, with the exception of 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 F72. An overview of the members of the corporate assembly, the current composition of the board of directors and information about their independence as well as 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. Both assessments are submitted to the nomination committee, which in turn assesses the board's composition and competence.

*References:* See page 18. The board of directors' mandate, information about the board of directors and its committees, and the board members' competence 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. The annual report contains a more detailed description of the company's internal controls and risk management systems related to financial reporting.

*References:* A review of Hydro's main risks can be found at page 13.

### 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 44 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.

*References:* The board's guidelines for management remuneration are described in note 10. All aspects of remuneration of executive management are described in note 11. Hydro's remuneration policy is also described in Hydro's people policy which can be found at [www.hydro.com/](http://www.hydro.com/) principles. See also page 18.

### 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 on [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 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.

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 13, 20 and 22. A financial calendar is available on page 21 and at [www.hydro.com/](http://www.hydro.com/) investor where also more information about web casts and the Hydro share can be found. 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.

Despite the restrictions described in item 5 to which Vale was subject, Vale could sell its shares in Hydro to a third party on the following conditions: The third party must make an unconditional offer for all the Hydro shares or the offer must be recommended by Hydro's board of directors, and the

third party must own or become the owner of 50 percent of Hydro's shares during the bidding period before Vale could sell its shares to a third party.

*Deviations:* See page 22.

### *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.

On 4 May 2010, the general meeting of shareholders chose KPMG as new external auditor for the group with effect from the reporting period 2010.

*References:* Learn more about the external auditor on page [F74 and note 43 to the consolidated financial statements.



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## Consolidated financial statements

### Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended December 31	Notes	2013	2012
Revenue	7	<b>64 880</b>	64 181
Share of the profit (loss) in equity accounted investments	7, 25, 26	<b>(312)</b>	(450)
Other income, net	8	<b>790</b>	853
<b>Total revenue and income</b>		<b>65 358</b>	64 583
Raw material and energy expense	9	<b>42 943</b>	41 559
Employee benefit expense	11	<b>6 782</b>	7 457
Depreciation and amortization expense	12	<b>4 292</b>	4 443
Impairment of non-current assets	13	<b>100</b>	1 100
Other	14, 15	<b>9 568</b>	9 453
<b>Total expenses</b>		<b>63 684</b>	64 012
<b>Earnings before financial items and tax</b>	7	<b>1 674</b>	571
Financial income	16	<b>405</b>	418
Financial expense	16	<b>(2 954)</b>	(1 047)
<b>Financial income (expense), net</b>		<b>(2 550)</b>	(629)
Income from continuing operations before tax		<b>(875)</b>	(58)
Income taxes	17	<b>(153)</b>	(759)
<b>Income (loss) from continuing operations</b>		<b>(1 029)</b>	(817)
Income (loss) from discontinued operations	5	<b>189</b>	(514)
<b>Net income (loss)</b>		<b>(839)</b>	(1 331)
Net income (loss) attributable to minority interests		<b>81</b>	(13)
Net income (loss) attributable to Hydro shareholders		<b>(920)</b>	(1 318)
Basic and diluted earnings (loss) per share from continuing operations	34	<b>(0.54)</b>	(0.39)
Basic and diluted earnings (loss) per share from discontinued operations	34	<b>0.09</b>	(0.25)
Basic and diluted earnings (loss) per share attributable to Hydro shareholders	34	<b>(0.45)</b>	(0.65)

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	2013	2012
Net income (loss)		<b>(839)</b>	(1 331)
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to income statement</b>			
Remeasurement postemployment benefits, net of tax	34	<b>(259)</b>	2 532
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	34	<b>46</b>	(68)
<b>Total</b>		<b>(213)</b>	2 464
<b>Items that will be reclassified to income statement</b>			
Currency translation differences, net of tax	34	<b>2 753</b>	(8 236)
Unrealized gain (loss) on securities, net of tax	34	<b>(38)</b>	(49)
Cash flow hedges, net of tax	34	<b>(291)</b>	(137)
Share of other comprehensive income that will be recycled to income statement in equity accounted investments, net of tax	34	<b>388</b>	(47)
<b>Total</b>		<b>2 811</b>	(8 469)
<b>Other comprehensive income</b>		<b>2 598</b>	(6 005)
<b>Total comprehensive income</b>		<b>1 759</b>	(7 336)
Total comprehensive income attributable to minority interests		<b>(55)</b>	(962)
<b>Total comprehensive income attributable to Hydro shareholders</b>		<b>1 814</b>	(6 374)

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

## Consolidated balance sheets

Amounts in NOK million, December 31	Notes	2013	2012	2011
<b>Assets</b>				
Cash and cash equivalents		8 412	7 034	8 365
Short-term investments	18	2 480	4 343	1 780
Accounts receivable	19	9 719	8 761	13 217
Inventories	20	9 929	9 685	14 157
Other current financial assets	40	181	336	666
<b>Total current assets</b>		<b>30 721</b>	30 159	38 185
Assets held for sale	5	-	9 564	-
Property, plant and equipment	22	50 670	52 208	64 192
Intangible assets	23, 24	5 557	5 716	7 930
Investments accounted for using the equity method	25, 26	18 210	10 234	11 446
Other non-current assets	21, 40	5 783	5 892	7 003
Prepaid pension	32	3 595	3 080	1 775
Deferred tax assets	33	700	505	2 148
<b>Total non-current assets</b>		<b>84 515</b>	77 635	94 494
<b>Total assets</b>	7	<b>115 235</b>	117 357	132 680
<b>Liabilities and equity</b>				
Bank loans and other interest-bearing short-term debt	28	6 195	5 956	4 248
Trade and other payables	29	9 255	8 336	12 316
Provisions	31	998	850	1 369
Taxes payable		1 959	1 913	2 505
Other current financial liabilities	40	475	466	779
<b>Total current liabilities</b>		<b>18 882</b>	17 522	21 216
Liabilities in disposal groups	5	-	3 445	-
Long-term debt	30	3 986	3 674	4 190
Provisions	31	2 622	2 408	2 614
Pension obligation	32	9 202	8 077	10 627
Other non-current financial liabilities	40	2 075	2 107	2 943
Other liabilities		792	982	1 282
Deferred tax liabilities	33	2 412	3 645	5 363
<b>Total non-current liabilities</b>		<b>21 089</b>	20 892	27 019
<b>Total liabilities</b>		<b>39 971</b>	41 859	48 235
Share capital	34	2 272	2 272	2 272
Additional paid-in capital	34	29 049	29 056	29 056
Treasury shares	34	(1 006)	(1 047)	(1 084)
Retained earnings		46 617	49 018	51 792
Other components of equity	34	(6 950)	(9 635)	(4 579)
<b>Equity attributable to Hydro shareholders</b>		<b>69 981</b>	69 663	77 457
Minority interests		5 283	5 835	6 988
<b>Total equity</b>		<b>75 264</b>	75 498	84 445
<b>Total liabilities and equity</b>		<b>115 235</b>	117 357	132 680

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	2013	2012
<b>Operating activities</b>			
Net income (loss)		<b>(839)</b>	(1 331)
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (income) from discontinued operations	5	<b>(189)</b>	514
Depreciation, amortization and impairment	7, 12, 13	<b>4 391</b>	5 544
Share of loss in equity accounted investments	7, 25, 26	<b>312</b>	450
Dividends received from equity accounted investments	25, 26	<b>206</b>	-
Deferred taxes		<b>(1 272)</b>	(469)
Gain on sale of non-current assets		<b>(15)</b>	(67)
Net foreign exchange loss	16	<b>2 245</b>	280
Net sales of trading securities		<b>340</b>	101
Capitalized interest	16	<b>(2)</b>	(15)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		<b>474</b>	706
Inventories		<b>13</b>	1 693
Trade and other payables		<b>136</b>	(914)
Financial and commodity derivatives		<b>79</b>	(897)
Other items		<b>(806)</b>	(161)
<b>Net cash provided by continuing operating activities</b>	<b>42</b>	<b>5 073</b>	<b>5 434</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment		<b>(2 701)</b>	(3 256)
Purchases of other long-term investments		<b>(187)</b>	(158)
Purchases of short-term investments		<b>(1 250)</b>	(3 050)
Proceeds from sales of property, plant and equipment		<b>64</b>	73
Proceeds from sales of other long-term investments		<b>293</b>	99
Proceeds from sales of short-term investments		<b>3 050</b>	-
<b>Net cash used in continuing investing activities</b>		<b>(731)</b>	<b>(6 292)</b>
<b>Financing activities</b>			
Loan proceeds		<b>6 744</b>	9 552
Principal repayments		<b>(7 255)</b>	(6 815)
Net decrease in other short-term debt		<b>(289)</b>	(492)
Proceeds from shares issued		<b>56</b>	72
Dividends paid		<b>(1 975)</b>	(1 741)
<b>Net cash provided by (used in) continuing financing activities</b>		<b>(2 719)</b>	<b>576</b>
<b>Foreign currency effects on cash and bank overdraft</b>		<b>183</b>	<b>(344)</b>
<b>Net cash used in discontinued operations</b>	<b>5</b>	<b>(431)</b>	<b>(318)</b>
<b>Net increase (decrease) in cash, cash equivalents and bank overdraft</b>		<b>1 375</b>	<b>(944)</b>
Cash, cash equivalents and bank overdraft classified as assets held for sale		<b>-</b>	<b>(367)</b>
<b>Cash, cash equivalents and bank overdraft at beginning of year</b>		<b>7 033</b>	<b>8 344</b>
<b>Cash, cash equivalents and bank overdraft at end of year</b>	<b>42</b>	<b>8 408</b>	<b>7 033</b>

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

## Consolidated statements of changes in equity

Amounts in NOK million	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other components of equity	Equity attributable to Hydro share-holders	Minority interest	Total equity
December 31, 2011		2 272	29 056	(1 084)	51 792	(3 856)	78 180	6 988	85 168
Effect of change in accounting principle	2					(723)	(723)	-	(723)
January 1, 2012		2 272	29 056	(1 084)	51 792	(4 579)	77 457	6 988	84 445
Treasury shares reissued to employees	34		-	37			37		37
Dividends	36				(1 528)		(1 528)	(240)	(1 768)
Capital contribution in subsidiaries								128	128
Transactions with minority holders					71		71	(71)	-
Equity interests sold								(8)	(8)
Total comprehensive income for the year					(1 318)	(5 056)	(6 374)	(962)	(7 336)
December 31, 2012		2 272	29 056	(1 047)	49 018	(9 635)	69 663	5 835	75 498
Treasury shares reissued to employees	34		(7)	41			33		33
Dividends	36				(1 529)		(1 529)	(528)	(2 057)
Capital contribution in subsidiaries								33	33
Items not reclassified to income statement in subsidiaries sold					49	(49)	-		-
Minority interests in subsidiaries sold								(1)	(1)
Total comprehensive income for the year					(920)	2 734	1 814	(55)	1 759
December 31, 2013		2 272	29 049	(1 006)	46 617	(6 950)	69 981	5 283	75 264

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

Oslo, March 11, 2014

  
TERJE VAREBERG  
Chair

  
INGE K. HANSEN  
Deputy chair

  
LIV MONICA BARGEM STUBHOLT  
Board member

  
OVE ELLEFSEN  
Board member

  
BILLY FREDAGSVIK  
Board member

  
FINN JEBSEN  
Board member

  
VICTOIRE DE MARGERIE  
Board member

  
STEN ROAR MARTINSEN  
Board member

  
DAG MEJDELL  
Board member

  
EVA PERSSON  
Board member

  
PEDRO JOSÉ RODRIGUES  
Board member

  
SVEIN RICHARD BRANDTZÆG  
President and CEO

## Notes to the consolidated financial statements

### Note 1 - Significant accounting policies and reporting entity

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. Hydro is listed on the Oslo and London stock exchanges.

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, 2013. Hydro also provides the disclosure requirements as specified under the Norwegian Accounting Law (Regnskapsloven).

The following description of accounting principles applies to Hydro's 2013 financial reporting, including all comparative figures. See note 3 Basis of presentation and measurement of fair value, and note 4 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.

#### *Minority interests*

Minority interests represent non-controlling interests in subsidiaries. Minority interests are reported as a separate section of the Group's equity in accordance with IAS 27 Consolidated and Separate Financial Statements. Results attributed to minority 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 minority 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 minority shareholders in the acquiree is initially measured as the minority's proportion of the fair value of the net assets recognized (partial goodwill method), or as the minority's proportion of the fair value of the acquiree (full goodwill method). Minority interests are subsequently adjusted for changes in equity after the acquisition date.

### *Transactions between minority 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 IAS 27. No gain, loss or change of recognized assets, liabilities or goodwill is recognized as result of such transactions.

### *Investments in associates and jointly controlled entities*

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 affects Hydro's influence.

A joint venture 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.

Hydro accounts for investments in associates and participation in a joint venture which is conducted in an entity, a jointly controlled entity, 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 jointly controlled entities is included in Hydro's Other comprehensive income. Hydro's proportional share of unrealized profits resulting from transactions with associates and jointly controlled entities, including transfer of businesses, is eliminated.

Accounting policies used by associates and jointly controlled entities may differ from the accounting policies adopted by Hydro. Differences in recognition or measurement are adjusted for prior to equity accounting described above.

Investments in associates and jointly controlled entities 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 jointly controlled and jointly owned assets*

Jointly owned assets are arrangements where Hydro and the other partners have a direct ownership in specifically identified assets. Jointly controlled assets or operations are such assets or a direct participation in certain operations that are under contractually joint control. Hydro uses the proportional method of accounting for both jointly controlled and jointly owned assets or operations. Under the proportional method, Hydro's relative share of the assets, liabilities, income and expense for these arrangements is included 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 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.

### *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.

### *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. 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.

### *Guarantees*

Hydro recognizes a liability for the fair value of obligations undertaken in issuing guarantees.

### *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. Rebates and 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 counterparty, are presented on a net basis in the income statement with trading margins included in revenues.

### *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, 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 when 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 at inception 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 exist, 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. 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.

### *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.

Cash and cash equivalents, short-term investments, accounts receivable and other non-current financial assets are discussed below. All other financial assets are measured at amortized cost.

#### **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 fair 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 marketable equity and debt securities which are considered trading securities and measured at fair value. The resulting unrealized holding gains and losses are 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. Other overdue accounts receivable are assessed for impairment based on prior collection experience, the customer portfolio, 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 non-marketable 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 estimated based on valuation model techniques for non-marketable

securities. 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. 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, is considered to be available for use or sale at its 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 bifurcated and 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 (revised 2011). 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.

#### *Segment information*

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments.

## Note 2 - Changes in accounting principles and new pronouncements

### *Changes in accounting principles*

Hydro implemented IAS 19 Employee Benefits (as revised in 2011) as of January 1, 2013 and changed the classification of the interest component of employee benefits. The changes are made with retrospective application. The main changes to previously reported information are shown in the table below. In addition, there are minor changes to some other line items, including results and investments in equity accounted investments, and taxes. There are no changes to minority interests.

Amounts in NOK million (except per share amounts)	Year 2012	
	Effect of IAS19R	Adjusted
Employee benefit expense	(136)	7 457
Earnings before financial items and tax	139	571
Financial expense	(281)	(1 047)
Income (loss) from continuing operations	(99)	(817)
Income (loss) from discontinued operations	14	(514)
Net income (loss)	(85)	(1 331)
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK)	(0.04)	(0.65)
Other comprehensive income	2 464	(6 005)

Amounts in NOK million	January 1, 2012		December 31, 2012	
	Effect of IAS19R	Adjusted	Effect of IAS19R	Adjusted
Assets held for sale	-	-	129	9 564
Prepaid pension	179	1 775	1 420	3 080
Total assets	126	132 680	805	117 357
Liabilities in disposal groups	-	-	51	3 445
Provisions	(717)	2 614	(683)	2 408
Pension obligation	1 528	10 627	(434)	8 077
Equity attributable to Hydro shareholders	(723)	77 457	1 654	69 663

Hydro has also implemented the following new guidance as of January 1, 2013 with no material impact.

- IFRS 13 Fair Value Measurement
- IFRIC 20 Stripping Cost in the Production Phase of a Surface Mine

### *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.

Standards to be implemented in 2014:

- IFRS 10 Consolidated Financial Statements; effective date January 1, 2013 (EU: January 1, 2014).
- IFRS 11 Joint Arrangements; effective date January 1, 2013 (EU: January 1, 2014).
- IFRS 12 Disclosures of Interests with Other Entities; effective date January 1, 2013 (EU: January 1, 2014).
- IAS 27 Separate Financial statements (as revised in 2011); effective date January 1, 2013 (EU: January 1, 2014).
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011); effective date January 1, 2013 (EU: January 1, 2014).

Standards to be implemented in 2015 or later years:

- IFRS 9 Financial Instruments - Classification and Measurement; effective date not yet determined.

As of the date of issue of Hydro's financial statements, all of the new pronouncements to be implemented in 2014 were endorsed by the EU.

The implementation of IFRS 10, IFRS 11 and IAS 28 will impact how investments in other entities and operations are measured and presented in the financial statements. Two jointly controlled entities, the rolling operation Aluminium Norf GmbH and the power producer Skafså ANS, are determined to be joint operations under IFRS 11. Hydro will account for its share of assets, liabilities, income and expenses in these operations, changing gross assets, liabilities, and classification in the income statement, however, no changes are expected to net income or equity.

Hydro is in the process of evaluating the potential accounting impact of IFRS 9.

## Note 3 - Basis of presentation and measurement of fair value

### *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 4 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 is 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.

### *Net present value*

Interest rates used for calculating net present values are rounded to the nearest 25 basis points.

### *Measurement of fair value*

For both financial statement measurement and note disclosure, 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 methodologies. 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.

Hydro's 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.

### **Marketable and non-marketable 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 calculated based on commonly accepted valuation techniques utilizing significant unobservable data, primarily cash flow based models. If fair value cannot be measured reliably unlisted shares are recognized at cost.

### **Derivatives**

Fair value of financial derivatives 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.

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 appropriate option pricing models and credit spreads are applied where deemed to be significant.

### **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. For contracts that contain embedded caps or floors, Asian option valuation models are used.

## Note 4 - Critical accounting judgment and key sources of estimation uncertainty

The application of accounting policies require that management make 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 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. Each Cash Generating Unit (CGU) or individual asset is reviewed for impairment indicators. Most of Hydro's assets are assigned to CGUs. 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.

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, bids or other discussions of potential transactions involving the asset, or internal models used by Hydro for transactions involving the same type of assets. 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 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 13 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, mortality, and the rate of return on plan assets.

The discount rate is based on the yield from high quality corporate bonds. Hydro provides defined benefit plans in several countries and in various economic environments that affects the actual discount rate applied. Around 70 percent of Hydro's defined benefit obligation (DBO) relates to Norway. The discount rate applied for Norwegian plans as of December 31, 2013 was 4.0 percent (2012: 3.75 percent). The discount rate is based on the yield on covered bonds 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. The discount rate derived from government bonds is about 0.7 percentage points below the rate derived from covered bonds, and would have resulted in a computed obligation about NOK 1 billion above the reported obligation at the end of 2013.

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. Hydro expects a somewhat lower salary increase for our Norwegian activities compared to the average development in Norway, based on the challenged profitability and international competition in our industry. 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 32 Employee retirement plans.

### *Business combinations and goodwill*

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 including the useful lives of assets, replacement costs and the timing and amounts of certain future cash flows, which may be dependent on future commodity prices, currency rates, discount rates and other factors.

In accordance with IAS 36, goodwill and certain intangible assets are reviewed at least annually for impairment. See discussion above about impairment of non-current assets relating to the determination of a CGU and valuation principles and methodologies.

### *Contingencies, uncertain liabilities and environmental 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. Contingent liabilities are disclosed unless a future payment is considered remote. Evaluation of uncertain liabilities and contingencies 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 the assessment of damages. 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 38 Contingent liabilities and contingent assets.

### *Insurance and other compensation*

Hydro has insurance contracts and certain other arrangements giving right to compensation for damage and/or losses. Compensation claims are recognized when it is deemed to be virtually certain that Hydro will receive a compensation under the contract. 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 expect 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.

### *Income tax*

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 taxes*

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 such 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.

### *Investments in other entities*

Hydro has invested in several other entities with various ownership share and under different contractual arrangements. Accounting for such relationships requires us to determine which entities Hydro controls, has joint control with other investors, has significant influence, or has less than significant influence over. The assessment includes identification of relevant decisions that significantly impacts the returns from the entity, which parties have possibility to make such decisions, and who are exposed to the variability in returns from such decisions. The conclusions determines which entities that are determined to be subsidiaries and thus consolidated, which entities that are determined to be jointly controlled and which are considered associates. Jointly controlled entities and associates are accounted for using the equity method. The assessment may be judgmental and changes may occur over time.

## Note 5 - Significant subsidiaries and changes to the consolidated group

The Hydro group's continuing operations consists of about 80 companies in about 20 countries. Most subsidiaries are 100 percent owned, directly or indirectly, by Norsk Hydro ASA. There are minority 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). The minority owner has significant influence on certain decisions in the entity, including operational and investment budgets. The minority interests in Albras amounted to NOK 2,820 million as of December 31, 2013.

### **Slovalco**

Hydro holds 55 percent of the total shares and 60 percent of the voting interest in the Slovak smelter Slovalco a.s. The minority owner has significant influence on certain decisions in the entity, including operational and investment budgets. The minority interests in Slovalco amounted to NOK 952 million as of December 31, 2013.

### **Alunorte**

Hydro holds 92 percent of the shares in the Brazilian alumina refinery Alumina do Norte do Brasil S.A. (Alunorte). The minority interests has limited influence on the operational decisions. The minority interests in Alunorte amounted to NOK 1,319 million as of December 31, 2013.

### *Discontinued operations and Assets held for sale*

In October 2012 Hydro's Board of Directors decided to combine the Extruded Products activities with the Profiles and Building System, as well as extruded and welded tubes, of the Norwegian industrial group Orkla's fully-owned subsidiary Sapa. The new combined company named Sapa, was established on September 1, 2013 as a 50/50 jointly controlled entity owned by Orkla and Hydro. The units contributed includes Hydro's Building systems activities, the Precision tubing activities and general extrusion activities, which comprises all of the Extruded Products segment. Extruded Products had production facilities in Europe, North and South America, and China and sold such products as aluminium extrusion and semi fabricated products for the building and construction, transportation and engineered products industrial sectors. Hydro delivers certain services to Sapa in a transition period, and will continue to deliver metal products to Sapa at market prices.

The Extruded Products business was reported as Assets held for sale and Discontinued operations as of mid October 2012. The results of operations in the businesses contributed to the jointly controlled entity are reported separately until completion of the transaction under the caption "Income (loss) from discontinued operations" for the current and prior period. Cash flows from discontinued operations are presented separately. In the balance sheet as of December 31, 2012, assets in the business to be disposed of and the related liabilities were reported as "Assets held for sale" and "Liabilities in disposal groups", respectively. The assets and related liabilities were carried at the lower of its value measured under the general principles, or its fair value as a disposal group. Prior period balance sheets were not reclassified. The gain on divestment of the Extruded Product business of NOK 150 million included a negative cumulative translation difference of NOK 517 million as of completion of the transaction. According to Hydro's accounting policy 50 percent of the gain is considered unrealized and thus eliminated. Certain components of the gain are estimated as Hydro has issued certain customary representations and warranties in the contribution contract which may result in payments to the joint venture when resolved.

**Asset groups held for sale**

Amounts in NOK million	December 31	
	2013	2012
Current assets		4 750
Non-current assets		4 814
Total assets	-	9 564
Current liabilities		782
Non-current liabilities		2 663
Assets held for sale, net	-	6 119

**Summary of financial data for discontinued operations**

Amounts in NOK million	01.01 - 31.12	
	2013	2012
Revenue and other income	11 531	17 598
Share of the profit (loss) in equity accounted investments	10	18
Depreciation, amortization and impairment	-	392
Other expenses	11 347	17 610
Earnings (loss) before financial items and tax	194	(386)
Financial income (expense), net	(52)	(58)
Income (loss) before tax	142	(444)
Income tax expense	(28)	(70)
Gain on disposal	75	-
Income (loss) from discontinued operations	189	(514)
Net cash provided by (used in) operating activities	(238)	313
Net cash used in investing activities	(285)	(716)
Net cash provided by (used in) financing activities	(12)	123
Foreign currency effects on cash	11	(38)
Net decrease in cash classified as assets held for sale	93	-
Net cash used in discontinued operations	(431)	(318)

There were no significant changes to the group during 2012.

**Note 6 - 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 2013 compared to previous years.

*Commodity price risk exposure***Aluminium**

Hydro produces primary aluminium 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 external customers. These activities serve to optimize capacity utilization, reduce logistical costs and strengthen our market positions.

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 hedges 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 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 become an increasing share of the revenue. 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 41 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 majority of alumina purchase and sale contracts are priced as a percentage of to the LME aluminium price, but material tonnages are also purchased and sold with reference to a spot market price index.

Hydro is a producer and consumer of bauxite. Hydro's usage 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. The risk associated with aluminium price links in contracts for bauxite and alumina is managed together with the market risk arising from changes in the aluminium price discussed above.

#### **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.

#### **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 use foreign currency swaps and forward currency contracts from time to time.

### 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 below.

### 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, 2013 and December 31, 2012, 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 profit and loss, 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, 2013 <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>	77	-	75	-	-	-	(1)	-
Other financial instruments <sup>3)</sup>	3 340	(817)	230	54	-	-	(3)	29
Derivative commodity instruments <sup>4)</sup>	(387)	(275)	1	(3)	50	11	(12)	18
Financial instruments directly to equity <sup>5)</sup>	418	(252)	(47)	-	-	25	(88)	97

Amounts in NOK million	Fair value as of December 31, 2012 <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>	-	-	-	-	-	-	-	-
Other financial instruments <sup>3)</sup>	4 145	(759)	228	82	-	-	(6)	40
Derivative commodity instruments <sup>4)</sup>	(297)	(295)	2	(2)	(8)	(149)	(39)	25
Financial instruments directly to equity <sup>5)</sup>	727	150	(15)	-	213	50	(31)	90

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 mainly forward currency contracts.

3) Includes cash and cash equivalents, investments in marketable 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 OMS Commodities Europe 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 relate 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.

### *Credit risk management*

Hydro manages credit risk by setting counterparty risk limits and establishing procedures for monitoring exposures and timely settlement of customer accounts. 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. 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. The credit facility of USD 1.7 billion maturing in 2014, was replaced by a facility of the same amount maturing in 2018 with two potential one-year extensions. The facility remained undrawn.

Repayments of long-term debt are disclosed in note 30 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.

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, 2013		December 31, 2012	
	Liabilities	Assets	Liabilities	Assets
2013			(403)	525
2014	(5 685)	5 502	(568)	629
2015	(10)	9		
2016	(6)	8		
<b>Total</b>	<b>(5 701)</b>	<b>5 519</b>	<b>(971)</b>	<b>1 154</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 41 Derivative instruments and hedge accounting.

## 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 unique 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 and sheet 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 aluminium 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 with the following exceptions: Internal commodity contracts may meet the definition of a financial instrument in IAS 39 or contain embedded derivatives that are required to be bifurcated 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 capital 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	
	2013	2012	2013	2012	2013	2012
	Bauxite & Alumina	8 124	8 459	5 226	4 806	-
Primary Metal	3 866	4 479	19 413	22 210	108	(320)
Metal Markets	29 646	28 960	8 144	10 971	-	-
Rolled Products	20 290	20 000	(194)	80	(70)	(67)
Energy	2 830	2 095	3 449	2 595	(2)	(2)
Other and eliminations	124	187	(36 038)	(40 663)	(348)	(61)
<b>Total</b>	<b>64 880</b>	<b>64 181</b>	<b>-</b>	<b>-</b>	<b>(312)</b>	<b>(450)</b>

Amounts in NOK million	Earnings before financial items and tax (EBIT) <sup>1)</sup>		Depreciation, amortization and impairment		EBITDA	
	2013	2012	2013	2012	2013	2012
	Bauxite & Alumina	(1 178)	(783)	1 718	1 750	540
Primary Metal	855	(1 254)	1 855	3 026	2 726	1 789
Metal Markets	666	138	98	174	764	312
Rolled Products	95	788	427	401	576	1 241
Energy	1 657	1 448	148	129	1 805	1 577
Other and eliminations	(420)	235	146	63	(274)	337
<b>Total</b>	<b>1 674</b>	<b>571</b>	<b>4 391</b>	<b>5 544</b>	<b>6 137</b>	<b>6 222</b>

Amounts in NOK million	Non-current assets		Total assets <sup>2)</sup>		Investments <sup>3)</sup>	
	2013	2012	2013	2012	2013	2012
	Bauxite & Alumina	37 252	37 974	41 847	42 208	1 198
Primary Metal	26 311	26 780	33 310	33 917	1 093	1 023
Metal Markets	924	870	6 137	6 029	74	37
Rolled Products	5 430	4 935	12 454	11 785	442	405
Energy	5 110	4 863	5 911	5 717	689	430
Other and eliminations	9 487	2 213	15 577	8 138	90	56
<b>Total continued operations</b>	<b>84 515</b>	<b>77 635</b>	<b>115 235</b>	<b>107 793</b>	<b>3 586</b>	<b>3 382</b>
<b>Classified as held for sale</b>			<b>-</b>	<b>9 564</b>		
<b>Total</b>			<b>115 235</b>	<b>117 357</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) Total assets exclude internal cash accounts and accounts receivables related to group relief.

3) Additions to property, plant and equipment plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments. Excludes investments in discontinued operations.

The identification of assets, long-lived assets and investments is based upon 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>3)</sup>	
	2013	2012	2013	2012	2013	2012
Norway	3 990	2 880	23 762	16 072	1 435	1 079
Germany	10 543	9 957	4 893	4 577	381	321
Great Britain	3 360	4 442	61	203	11	3
Italy	2 418	2 506	258	239	15	17
Spain	2 032	2 069	67	57	3	2
Poland	1 779	1 655	-	-	-	4
France	1 770	1 703	37	38	4	-
The Netherlands	1 388	1 459	645	488	-	84
Other	5 298	5 239	1 057	1 099	51	77
Total EU	28 589	29 030	7 018	6 700	449	508
Switzerland	4 326	3 715	173	238	-	-
Other Europe	2 602	3 083	-	-	-	-
Total Europe	39 507	38 708	30 953	23 011	1 901	1 587
USA	5 662	5 199	358	323	26	7
Canada	55	166	1 557	1 475	116	74
Brazil	2 252	1 883	41 808	43 948	1 493	1 644
Other Americas	659	749	-	-	-	-
Qatar	1 444	1 596	9 074	7 978	-	-
Japan	3 875	3 850	2	2	-	-
Singapore	1 934	1 774	-	-	-	-
South Korea	1 646	1 458	-	-	-	-
Saudi Arabia	1 547	1 124	-	-	-	-
Other Asia	5 229	6 187	-	124	2	6
Australia and New Zealand	728	1 105	762	773	49	62
Africa	344	383	-	-	-	-
Total outside Europe	25 374	25 473	53 561	54 624	1 685	1 795
Total continued operations	64 880	64 181	84 515	77 635	3 586	3 382

## Note 8 - Other income

Amounts in NOK million	2013	2012
Gain on sale of property, plant and equipment	1	47
Gain on sale of subsidiaries, associates and jointly controlled entities	2	47
Revenue from utilities <sup>1)</sup>	141	128
Rental revenue	253	303
Government grants	320	327
Other <sup>2)</sup>	73	1
Other income, net	790	853

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

2) Other includes royalties and insurance compensations.

## Note 9 - Raw material and energy expense

Amounts in NOK million	2013	2012
Raw material expense and production related cost	43 003	40 929
Change in inventories own production	(179)	404
Write-downs of inventories	127	239
Reversals of write-downs of inventory	(9)	(13)
<b>Raw material and energy expense</b>	<b>42 943</b>	<b>41 559</b>

Raw material expense and production related cost include effect of commodity derivative instruments. See note 41 Derivative instruments and hedge accounting.

## Note 10 Board of Directors' statement on Management remuneration

### *Board of Directors' statement on Management remuneration*

The statement on the remuneration of the company's Chief Executive Officer (CEO) and other members of the Corporate Management Board has been prepared in accordance with the provisions of the Norwegian Public Limited Companies Act, the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

### **Guidelines for management remuneration**

Hydro's guidelines for the remuneration of the company's CEO and other members of the Corporate Management Board reflect Hydro's global human resources policy, whereby *"Hydro shall offer its employees an overall compensation package that is competitive and in line with good industry standards in the country in question. Where appropriate this package should include, in addition to the base salary, also a performance-based incentive that overall shall reflect individual performance."*

### **Process for determination of remuneration**

The Board of Directors has appointed a separate compensation committee consisting of the board chairman and two shareholder-elected board members, as well as one employee representative. 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 compensation matters which the committee finds to be of material or principal importance for Hydro.

### **Key principles for determination of remuneration during 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 shareholders' meeting to be held in May 2014. The Board of Directors proposes that the guidelines set forth below shall apply for 2014 and up until the annual shareholders' meeting in 2015.

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 such operations. The determination of the level of the total compensation package will be, first and foremost, based on being competitive, but not a wage leader, within the relevant labour markets, while at the same time reflecting Hydro's international focus and presence. The Board will thus continue the practice from recent years with regard to moderation in executive remuneration, which in the Board's view reflects the expectations in this area.

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 will consist of a fixed package of salary and benefits supplemented by performance-based bonuses, share-based long-term incentive plans, employee share plans, pension and insurance arrangements and severance pay.

**Fixed remuneration** The fixed remuneration 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 labour market and general salary trends.

**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 any other member of the Corporate Management Board 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. The Board of Directors is concerned to ensure that bonus parameters are ambitious and balanced, and they reflect the varied nature of Hydro's operations. The annual bonus shall reflect (a) achievements in relation to pre-defined financial targets, (b) achievements of operational and organisational key performance indicators (KPIs) including targets relating to safety and environment (HSE) and corporate social responsibility (CSR), (c) compliance with and the promotion of Hydro's core values ("The Hydro Way"), and (d) the Board of Director's overall discretionary assessment. Bonus payments are not taken into account when determining the basis for pensionable salary.

**Long Term Incentive** The long-term incentive (LTI) consists of 30 percent or 25 percent of annual base salary payable, respectively, to the CEO and other members of the Corporate Management Board. 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 net amount received after tax in Hydro shares. Any such shares must be held for three years. Any holder of such shares who voluntarily terminates his or her employment during such three-year period must pay to the company an amount equal to the after-tax value of the shares at the date of such termination. The LTI arrangement is re-evaluated annually. LTI payments are not taken into account when determining the basis for pensionable salary.

**Other share-based bonuses** The CEO and other members of the Corporate Management Board are eligible to participate fully in Hydro's discounted employee share purchase plan on the same terms as all other eligible employees (as described below in note 11 Employee and management remuneration).

No share-based remuneration plans in the form of share options, or share appreciation rights (SARs), will be implemented.

**Pensions** The pension scheme for new employees in Norway, including senior management is a defined contribution plan. In 2010 Hydro executed an internal pension reform through a transition in Norway to a defined contribution pension plan, whereby the existing defined benefit pension plan was closed to externally recruited new employees with effect from March 1, 2010. As of January 1, 2014 just under 30 percent of the employees in Norway have a defined contribution plan. The defined contribution plan stipulates that 5 percent of salary between 1 to 6 G and 8 percent of salary between 6 and 12 G are paid into the plan. For salaries in excess of 12 G 20 percent of the salary is allocated as a vested right. ("G" is the Norwegian National Insurance basic amount).

The CEO and with one exception the other Norwegian members of the Corporate Management Board are members of Hydro's defined benefit pension plan. One member of the Corporate Management Board has the defined contribution plan.

In 2013, Hydro decided to continue the transition to defined contribution plan. It was then decided to transfer the remaining Hydro employees born June 1, 1962 or later who were in the defined benefit plans in Norway to Hydro's defined contribution plan with effect from June 1, 2014. This means that members of Corporate Management Board born June 1, 1962 or later who today are comprised of Hydro's defined benefit plans, will be transferred to the defined contribution plan on the same terms as other employees in Norway.

Based on a previously established scheme current Norwegian members of the Corporate Management Board have the right to retire at age 65 on a pension with 65 percent of pensionable income until age 67. This unfunded pension scheme was closed in 2011. After the age of 67 regular pension plans apply (defined contribution or defined benefit).

The CEO is in addition entitled to retire on a pension after reaching the age of 62. The Board of Directors may also require the CEO to do so. From the age of 62, defined pension benefits consist of 60 percent of the pensionable salary. After age 65, the rate of pension is 65 percent of the pensionable salary. A ceiling has been established regarding the CEO's pensionable earnings. Future salary increases will increase the CEO's pension basis up to a ceiling of NOK 5.5 million (such amount to be adjusted annually from the date in 2009 on which the CEO took up his appointment in accordance with the annual percentage changes in the National Insurance basic amount, "G"). Full pension entitlement is earned after 30 years' employment at Hydro.

Corresponding early retirement arrangements were put in place during 2010 in respect of the then other Norwegian members of the Corporate Management Board. These arrangements have the effect that future salary increases will only increase the pension basis up to a ceiling equivalent to NOK 3.5 million on January 1, 2010 (such amount to be adjusted annually in line with the annual percentage changes in the National Insurance basic amount, "G"). These pensions also make the receipt of 60 percent of the pensionable salary between the ages of 62 and 65 dependent on at least five years' membership in the Corporate Management Board between the ages of 50 and 60. The established early retirement arrangement from 62 to 65 years does not apply to persons who are entitled to retire before reaching the age of 62 under a previous agreement or has been appointed to the Corporate Management Board 2012 or later.

The Board of Directors will evaluate potential needs and alternative models for early retirement for 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 either unilaterally by Hydro or as the result of mutual agreement, 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 a period of 12 months but not beyond the age of 62. If the CEO earns other income during such 12-month period, Hydro may under certain conditions reduce the CEO's severance pay. In the event of the CEO's voluntary resignation, the ordinary rules of the Norwegian Working Environment Act regarding termination of employment will apply.

During 2010 corresponding arrangements were put in place regarding the other members of the Corporate Management Board, with the exception of one member who in accordance with a prior arrangement is already entitled to transfer to a less demanding role on reaching the age of 59 and to retire on reaching the age of 62. In respect of appointments to the Corporate Management Board in 2012 or later, severance pay will be paid for a period of six months following a six-month notice period.

**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.

Oliver Bell is employed by a foreign subsidiary. Johnny Undeli is employed by Norsk Hydro ASA but certain special conditions apply with regards to his responsibilities in Brazil. Undeli and Bell are covered by the LTI plan (described above) on the same terms as the other members of the Corporate Management Board.

### *Key principles for determining remuneration during the previous financial year*

The remuneration of the CEO and the members of the Corporate Management Board for the financial year 2012 was based on the same guidelines as those described above.

In September 2013, the Board of Directors decided to increase the CEO's base salary by 2.0 percent, from NOK 5,627,000 to NOK 5,739,540 with effect from January 1, 2013.

The base salary of the other members of the Corporate Management Board (excluding CEO) increased in the annual salary adjustment by between 1.5 percent and 5.4 percent in 2013, with an average increase of 2.6 percent.

Bonus payments for 2012 were determined and paid in 2013 on the basis of the principles described above (see also note 11 Employee and management remuneration).

Bonus payments for 2013 will be determined and paid in 2014 on the basis of the principles described above.

## Note 11 - Employee and management remuneration

### Corporate Management Board remuneration

Corporate management board members' salaries, remuneration in kind, salary compensation for estimated future pension shortfall, bonus, share based long term incentive for 2012 and 2011 settled in 2013 and 2012, respectively, and estimated increase in the value of their defined pension benefits together with any contributions to their defined contribution pension schemes, as well as Hydro share ownership as of December 31, 2013 and 2012 are presented in the table below. Hydro did not have any loans to or guarantees made on behalf of any of the corporate management board members in 2013 and 2012.

Name	Base salary 1) 2)	Maximum bonus potential 1) 2)	Remuneration paid				Long-term incentive plan (LTI) 1) 3)	Pension benefits 1) 4)	LTI-shares allocated	Hydro share ownership 5)
			Salary 1) 3)	In kind 1) 3)	Compensation pension 1) 3)	Bonus 1) 3)				
<b>2013</b>										
Svein Richard Brandtzæg	5 740	2 870	6 078	290	-	1 557	1 688	3 902	32 284	129 618
Eivind Kallevik <sup>6)</sup>	2 770	1 108	3 105	241	96	-	-	1 348	-	9 454
Johnny Undeli	6 375	1 283	6 671	223	-	-	790	1 750	13 654	38 605
Hilde Aasheim	2 992	1 197	3 155	201	-	704	735	2 130	14 065	37 065
Oliver Bell	4 278	1 711	4 276	68	-	1 047	1 028	5 688	20 173	50 631
Arvid Moss	2 790	1 116	2 938	260	-	646	686	2 146	12 106	104 949
Wenche Agerup	2 770	1 108	2 913	263	-	610	657	(3 250)	11 840	42 387
Jørgen C. Arentz Rostrup <sup>7)</sup>	3 130	-	1 846	156	-	551	-	654	-	34 083
Hans-Joachim Kock <sup>8)</sup>	4 653	532	4 444	1 556	-	-	589	(2 917)	16 520	43 475
<b>2012</b>										
Svein Richard Brandtzæg	5 627	2 814	6 068	273	-	1 655	1 650	3 415	23 820	90 967
Jørgen C. Arentz Rostrup	3 083	1 233	3 250	237	-	748	754	(3 695)	10 881	34 083
Johnny Undeli	6 272	1 264	6 652	218	-	770	773	1 758	11 152	24 584
Hilde Aasheim	2 942	1 177	3 150	195	-	716	718	2 275	11 221	22 633
Oliver Bell	3 969	1 587	3 976	119	-	928	997	3 129	16 043	30 458
Hans-Joachim Kock	4 820	1 322	4 843	1 847	-	-	834	1 414	13 630	26 955
Arvid Moss	2 743	1 097	2 905	253	-	676	666	2 807	10 219	86 476
Wenche Agerup	2 628	1 051	2 766	223	-	638	591	1 102	9 243	30 180
Kjetil Ebbesberg <sup>9)</sup>	2 611	653	2 800	218	-	615	640	920	10 009	17 042
Tom Røtjer <sup>9)</sup>	2 721	680	2 943	234	-	641	667	2 209	9 829	39 975

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. Bonus, if any, will be paid in the following year.

3) Salary is the amount paid to the individual during the year presented, and includes vacation pay. Remuneration-in-kind is the total of all 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 pension benefit plans to the defined contribution plan in line with an arrangement applicable to all affected employees in Norway. Bonus is the amount paid in the year presented based on performance achieved and bonus potential for the year before, including bonus earned before the individuals joined the Corporate Management Board. The LTI plan benefit reflects gross (pre-tax) amounts. For corporate management board members on net salary employment contracts, benefits have been converted to gross (pre-tax) amounts.

4) Pension benefits includes 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, except Jørgen C. Arentz Rostrup, this is the estimated change from January 1 to December 31. In 2013, Rostrup's estimated change in value of pension benefits reflects that he left Hydro as of February 15, 2013. 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, except for Jørgen C. Arentz Rostrup. In 2013, Hydro share ownership for Rostrup is as of February 15, 2013.

6) Eivind Kallevik became a member of the Corporate Management Board as of February 15, 2013.

7) Jørgen C. Arentz Røstrup stepped down from the Corporate Management Board and left Hydro as of February 15, 2013. In addition to the benefits included in the table above, Røstrup received severance pay amounting to NOK 1,565 thousand in 2013, and will receive the same amount in 2014.

8) Hans-Joachim Kock stepped down from the Corporate Management Board as of May 31, 2013.

9) Kjetil Ebbesberg and Tom Røtjer stepped down from the Corporate Management Board as of August 15, 2012.

Under the long term incentive for 2012 settled in 2013, former corporate management board members Kjetil Ebbesberg and Tom Røtjer received 7,503 and 7,507 shares with a gross (pre-tax) value of NOK 408 thousand and NOK 425 thousand, respectively. In 2013, Ebbesberg and Røtjer received bonus payments based on performance achieved as corporate management board members in 2012 of NOK 393 thousand and NOK 377 thousand, respectively. Under the long term incentive for 2010 settled in 2012, former corporate management board member Ola Sæter received 1,796 shares with a gross (pre-tax) value of NOK 162 thousand.

Effective March 30, 2009, Eivind Reiten stepped down as President and CEO, and left Hydro. He had a termination agreement with right to certain benefits (excluding bonus) for a three-year period, beginning March 30, 2009. In 2012, Reiten received a total remuneration of NOK 1,593 thousand.

### *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.

Compensation expense related to the 2012 performance measurement period was accrued and recognized over the service period of December 31, 2012 through March 31, 2013, the final acceptance date of the offer. In 2013 and 2012 the participation rates of eligible employees in the employee share purchase plan were 77 and 81 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>	2013	2012	2011
Total shareholder return performance target achieved	<12%	<12%	<12%
Employee rebate, NOK	2 500	2 500	2 500
Employee rebate, percent	25%	25%	25%

#### **Share purchase plan compensation**

	2013	2012
Award share price, NOK	27.19	33.25
Number of shares issued, per employee	367	300
Total number of shares issued to employees	1 085 219	981 300
Compensation expense related to the award, NOK thousand	7 377	8 157

### *Employee benefit expense*

The average number of employees in Hydro's continuing operations for 2013 and 2012 was 12,932 and 13,138, respectively. As of year end 2013 and 2012, Hydro's continuing operations employed 12,564 and 12,994 people, respectively. The specification of employee benefit expenses for 2013 and 2012 is given in the table below.

#### **Employee benefit expense**

Amounts in NOK million	2013	2012
Salary	5 721	5 814
Social security costs	705	709
Other benefits	201	418
Pension expense (note 32)	156	517
<b>Total</b>	<b>6 782</b>	<b>7 457</b>

## Note 12 - Depreciation and amortization expense

### Specification of depreciation and amortization by asset category

Amounts in NOK million	2013	2012
Buildings	596	612
Machinery and equipment	3 630	4 070
Intangible assets	65	117
Depreciation and amortization from discontinued operations	-	(355)
<b>Depreciation and amortization expense</b>	<b>4 292</b>	<b>4 443</b>

## Note 13 - Impairment of non-current assets

Amounts in NOK million	2013	2012
<b>Classification by asset category</b>		
<b>Impairment losses</b>		
Property, plant and equipment	97	1 118
Intangible assets	3	20
Impairment from discontinued operations	-	(37)
<b>Total impairment of non-current assets</b>	<b>100</b>	<b>1 100</b>

### Classification by segment

<b>Impairment losses</b>		
Primary Metal	1	1 019
Metal Markets	16	76
Energy	3	5
Other activities	80	-
<b>Total impairment of non-current assets</b>	<b>100</b>	<b>1 100</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, 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 10.5 and 15.5 percent (2012: 10.25-13.5 percent). Impairment losses have been recognized where the recoverable amount is less than the carrying value.

In 2013 we identified impairment indicators for Hydro Primary Metal's part-owned smelter Svalco, Slovakia and shares in Sørå, Norway. The assets were tested for impairment at the end of 2013. The recoverable amount for both units were determined as the VIU based on Hydro's internal assumptions for aluminium prices, raw material prices including energy and currency exchange rates. Both tests showed positive margins but are sensitive to changes in aluminium prices, energy prices and currency exchange rates.

Hydro Primary Metal's Kurri Kurri plant in Australia was written down in 2012, after management's decision to curtail the production, by NOK 1,019 million, to the plant's FV. The FV was determined based on external valuation reports in addition to internal value assessments.

Metal Markets' remelter in Taiwan was written down by NOK 76 million in 2012 to the estimated FV prior to the sale of the activity.

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	2013	2012
Alunorte (Bauxite & Alumina)	2 694	2 811
Remelters sector (Metal Markets)	250	228
Total goodwill	2 945	3 040

Goodwill in Bauxite & Alumina was allocated to a CGU consisting of the Alunorte alumina refinery, the main bauxite source Paragominas and certain related activities, all acquired in 2011. The recoverable amount has been determined based on a VIU calculation, and amounts to about NOK 33 billion. The value exceeds the carrying value by a limited amount, about 5 percent. The calculation used cash flow projections 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 estimated 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 discount rate assumed is 15.5 percent, reflecting a nominal pre-tax discount rate.

The main assumptions, expressed in real 2014 values, to which the test is sensitive are shown in the table below:

	Assumptions	
	2014	Long-term
Exchange rate BRL/USD	2.20	2.20
Alumina price (USD/mt)	320	390
Inflation difference Brazil - main Western economies	3.9 %	1.5 %
Production volume alumina (million mt)	5.8	6.3

Significant cash flows are denominated in US dollars. These are translated to BRL at a rate of 2.20 for 2014, for future periods the exchange rate is translated with a rate development reflecting the inflation difference between international inflation and the higher expected Brazil specific inflation. The production cost is sensitive to ICMS and other indirect taxes in Brazil. The test is based on the assumption that such taxes for 2015 and future years will reflect a level similar to the 2013 level.

If the exchange rate between the US dollar and BRL were based on the level at the end of 2013 of 2.34 with a similar development over the projection period, the coverage would increase to about 30 percent. 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 2014 assumptions over the entire 40-year period:

	% change	Value
Exchange rate BRL/USD	(2.0%)	2.16
Alumina price (USD/mt)	(1.5%)	384
Production volume alumina (million mt)	(2.3%)	6.1
Discount rate (% point)	0.6%	16.1 %
Total production cost (million BRL 2014)	(75)	

For Metal Markets the impairment test on goodwill has been based on approved business plan for the next year, managements best estimate of cash flows for the following four years and extrapolated to a 15 years cash flow estimate, providing a VIU exceeding the carrying value. See note 4 Critical accounting judgment and key sources of estimation uncertainty for additional information about impairment testing.

## Note 14 - Research and development

Total expensed research and development cost was NOK 216 million in 2013 and NOK 247 million in 2012. Research and development activities are intended to make production of aluminium more efficient including further improving the operational and environmental performance of Hydro's electrolysis 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.

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 28 million in 2013 and NOK 34 million in 2012.

## Note 15 - 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 2013	306	1 124	1 402	2 831
Operating lease obligation 2012	290	1 201	2 034	3 525

Operating lease expense for office space, machinery and equipment amounts to NOK 326 million for 2013 and NOK 328 million for 2012.

## Note 16 - Financial income and expense

Amounts in NOK million	2013	2012
Interest income	235	286
Dividends received and net gain (loss) on securities	170	133
<b>Financial income</b>	<b>405</b>	<b>418</b>
Interest expense	(419)	(393)
Capitalized interest	2	15
Net foreign exchange gain (loss)	(2 245)	(280)
Accretion	(350)	(454)
Other	59	64
<b>Financial expense</b>	<b>(2 954)</b>	<b>(1 047)</b>
<b>Financial income (expense), net</b>	<b>(2 550)</b>	<b>(629)</b>

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 17 - Income tax expense

Amounts in NOK million	2013	2012
<b>Income (loss) from continuing operations before taxes</b>		
Norway	287	1 891
Other countries	(1 163)	(1 949)
Total	(875)	(58)
<b>Current taxes</b>		
Norway	798	820
Other countries	628	408
Current income tax expense	1 425	1 228
<b>Deferred taxes</b>		
Norway	119	188
Other countries	(1 391)	(658)
Deferred tax expense (benefit)	(1 272)	(469)
Total income tax expense (benefit)	153	759
<b>Components of deferred taxes</b>		
Origination and reversal of temporary differences	(460)	1 046
Benefit tax loss carryforwards	(1 005)	(1 038)
Net change in unrecognized deferred tax assets	(62)	389
Tax (expense) benefit allocated to Other comprehensive income	255	(867)
Deferred tax expense (benefit)	(1 272)	(469)

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

Amounts in NOK million	2013	2012
Expected income taxes at statutory tax rate <sup>1)</sup>	(245)	(16)
Hydro-electric power surtax <sup>2)</sup>	674	399
Equity accounted investments	87	126
Foreign tax rate differences	(415)	(412)
Tax free income	(100)	(99)
Losses, other tax benefits and deductions with no tax benefits, net	151	761
Income tax expense (benefit)	153	759

1) Norwegian nominal statutory tax rate is 28 percent.

2) A surtax of 30 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.

## Note 18 - Short-term investments

Amounts in NOK million	2013	2012
Bank, time deposits	1 250	3 050
Equity securities	287	820
Debt securities	738	433
Other	205	40
Total short-term investments	2 480	4 343

## Note 19 - Accounts receivable

Amounts in NOK million	2013	2012
Trade receivables	7 277	6 379
VAT and other sales taxes	948	791
Other receivables	1 579	1 676
Allowance for credit losses	(85)	(85)
Accounts receivable	9 719	8 761

## Note 20 - Inventories

Amounts in NOK million	2013	2012
Raw materials	3 944	3 957
Work in progress	2 894	2 597
Finished goods	3 091	3 130
Inventories	9 929	9 685

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

## Note 21 - Other non-current assets

Amounts in NOK million	2013	2012
Non-marketable equity securities	1 009	918
Other securities	536	536
Employee loans	152	184
Derivative instruments	179	498
Prepaid taxes	3 403	3 262
Other receivables	504	494
Other non-current assets	5 783	5 892

## Note 22 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
<b>Cost</b>					
December 31, 2011	971	22 109	78 114	4 087	105 280
Additions	-	519	1 464	1 953	3 935
Disposals	(2)	(152)	(1 022)	(13)	(1 189)
Transfers	(11)	443	1 860	(2 293)	-
Assets classified as held for sale	(299)	(2 250)	(6 901)	(356)	(9 807)
Foreign currency translation effect	(49)	(1 274)	(6 500)	(477)	(8 300)
December 31, 2012	610	19 396	67 014	2 900	89 920
Additions	2	100	1 639	1 530	3 271
Acquisitions through business combinations	-	72	188	5	264
Disposals	(1)	(158)	(1 373)	(32)	(1 564)
Transfers	-	272	1 145	(1 418)	-
Foreign currency translation effect	71	180	565	(71)	745
December 31, 2013	681	19 861	69 178	2 914	92 635
<b>Accumulated depreciation and impairment</b>					
December 31, 2011	(49)	(9 090)	(31 862)	(88)	(41 088)
Depreciation for the year	-	(612)	(4 070)	-	(4 682)
Impairment losses	(4)	(230)	(887)	3	(1 118)
Disposals	-	72	932	-	1 004
Transfers	-	-	(56)	56	-
Assets classified as held for sale	47	1 374	5 135	-	6 556
Foreign currency translation effect	3	254	1 354	4	1 615
December 31, 2012	(2)	(8 230)	(29 454)	(26)	(37 712)
Depreciation for the year	-	(596)	(3 630)	-	(4 226)
Impairment losses	-	(42)	(39)	(16)	(97)
Disposals	-	66	1 353	16	1 435
Transfers	-	(7)	(17)	24	-
Foreign currency translation effect	-	(219)	(1 144)	(2)	(1 364)
December 31, 2013	(3)	(9 028)	(32 930)	(3)	(41 965)
<b>Carrying value</b>					
December 31, 2012	607	11 166	37 561	2 874	52 208
December 31, 2013	679	10 833	36 248	2 911	50 670

## Note 23 - 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, 2011	84	1 067	190	1 334	1 474	1 583	5 731
Additions	56	-	-	19	-	3	77
Disposals	-	(4)	-	(13)	-	(74)	(90)
Transfers	(1)	-	-	1	-	-	-
Assets classified as held for sale	(20)	-	-	(451)	-	(462)	(933)
Foreign currency translation effect	-	(160)	-	(55)	(222)	(82)	(520)
December 31, 2012	118	903	190	836	1 252	967	4 266
Additions	36	-	-	14	-	-	49
Acquisitions through business combinations	-	-	139	-	-	-	139
Disposals	-	-	-	(61)	-	(14)	(75)
Foreign currency translation effect	-	(38)	-	69	(52)	42	23
December 31, 2013	154	865	329	858	1 200	995	4 401
<b>Accumulated amortization and impairment</b>							
December 31, 2011	-	-	(190)	(895)	(79)	(938)	(2 102)
Amortization for the year <sup>1)</sup>	-	-	-	(87)	(100)	(32)	(220)
Impairment loss	-	-	-	(1)	-	(19)	(20)
Disposals	-	-	-	14	-	27	41
Assets classified as held for sale	-	-	-	259	-	358	617
Foreign currency translation effect	-	-	-	38	21	35	94
December 31, 2012	-	-	(190)	(672)	(159)	(568)	(1 589)
Amortization for the year <sup>1)</sup>	-	-	-	(52)	(89)	(17)	(158)
Impairment loss	-	-	-	-	-	(3)	(3)
Disposals	-	-	-	61	-	-	61
Foreign currency translation effect	-	-	-	(60)	10	(50)	(100)
December 31, 2013	-	-	(190)	(724)	(237)	(638)	(1 789)
<b>Carrying value</b>							
December 31, 2012	118	903	-	163	1 093	399	2 677
December 31, 2013	154	865	139	134	963	357	2 612

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 24 - Goodwill

Amounts in NOK million	Bauxite & Alumina	Metal Markets	Extruded Products	Total
<b>Cost</b>				
December 31, 2011	3 310	244	747	4 301
Assets classified as held for sale	-	-	(701)	(701)
Foreign currency translation effect	(498)	(16)	(46)	(560)
December 31, 2012	2 811	228	-	3 040
Foreign currency translation effect	(117)	22	-	(95)
December 31, 2013	2 694	250	-	2 945
<b>Carrying value</b>				
December 31, 2012	2 811	228	-	3 040
December 31, 2013	2 694	250	-	2 945

See note 13 Impairment of non-current assets for information about the annual impairment testing of goodwill.

## Note 25 - Investments in associates

Amounts in NOK million	Aluchemie	Ascent Solar	Other	Total
December 31, 2011	569	29	133	732
Investments			5	5
Change in long-term advances, net	77		(15)	62
Hydro's share of net income (loss)	(6)		(29)	(35)
Amortization	(15)			(15)
Impairment losses			(58)	(58)
Dividends and other payments received by Hydro				-
Derecognized investments		(27)	(10)	(37)
Foreign currency translation and other	(28)	(2)	(1)	(31)
December 31, 2012	597	-	25	622
Investments			6	6
Change in long-term advances, net	(64)		(6)	(70)
Hydro's share of net income (loss)	5		(2)	3
Amortization	(16)			(16)
Impairment losses				-
Dividends and other payments received by Hydro				-
Derecognized investments				-
Foreign currency translation and other	77		2	79
December 31, 2013	599	-	25	624

A description of significant associates' business, major owners, and the nature of related party transactions with Hydro including amounts if material follows:

**Aluminium & Chemie Rotterdam B.V. (Aluchemie)** is an anode producer located in the Netherlands. Hydro owns 36.2 percent and has 21.2 percent of the voting rights. Other shareholders are Rio Tinto Alcan (53.3 percent) and Søral (10.5 percent). Hydro purchased anodes from Aluchemie amounting to NOK 749 million in 2013 and NOK 748 million in 2012 based on a cost plus formula. Sales of anode butts and coke from Hydro to Aluchemie amounted to NOK 88 million in 2013 and NOK 87 million in 2012. Hydro is committed to purchase a share of produced anodes based on its ownership interest. For certain product lines the right and obligation to purchase is higher, as agreed between the shareholders. Aluchemie is part of Primary Metal.

Ascent Solar Technologies Inc. (Ascent) develops thin-film photovoltaic modules and is located in Denver, Colorado in the US. Hydro divested its interest in 2012.

## Note 26 - Investments in jointly controlled entities

Amounts in NOK million	Alunorf	Søral	Qatalum	Sapa	Other	Total
December 31, 2011	1 110	618	8 812		102	10 642
Investments (sale), net					4	4
Change in long-term advances, net	(12)					(12)
Hydro's share of net income (loss)	(14)	(34)	(241)		(2)	(291)
Hydro's share of other comprehensive income	(8)	3	(495)			(500)
Amortization	(52)					(52)
Impairment losses					(2)	(2)
Foreign currency translation and other	(55)		(97)		(38)	(190)
December 31, 2012	969	587	7 978	-	65	9 599
Investments (sale), net				7 225	(21)	7 204
Change in long-term advances, net	(13)				(2)	(15)
Hydro's share of net income (loss)	(15)	(257)	378	(347)	(1)	(242)
Hydro's share of other comprehensive income	(8)		199	242		433
Amortization	(55)					(55)
Dividends and other payments received by Hydro			(206)			(206)
Foreign currency translation and other	129		725			854
December 31, 2013	1 007	330	9 074	7 120	42	17 573

Negative value of investments in jointly controlled entities of NOK 13 million as of December 31, 2012 and 2013 is included in Other liabilities.

### Specification of jointly controlled entities

Amounts in NOK million, except ownership	Percentage owned by Hydro at year end	Investments in and advances to investees		Hydro's current trade receivable (payable), net with investees	
	2013	2013	2012	2013	2012
Alunorf	50.0%	1 007	969	(274)	(243)
Søral	49.9%	330	587	(89)	(96)
Qatalum	50.0%	9 074	7 979	(603)	(660)
Sapa	50.0%	7 120	-	476	-
Others		42	65	-	-
<b>Total</b>		<b>17 573</b>	9 599	<b>(490)</b>	<b>(999)</b>

Below is a description of significant jointly controlled entities' business operation and the nature of related party transactions with Hydro including amounts if material. Ownership interest and voting interest is the same unless otherwise stated. Contractual and capital commitments, contingent liabilities and guarantees reported by the jointly controlled entity is included where applicable.

**Aluminium Norf GmbH (Alunorf)** located in Germany is the world's largest rolling mill and is owned by Hydro and Hindalco Industries (50 percent each). Alunorf produces flat rolled products from raw material from the partners based on a tolling arrangement. Sales from Alunorf to Hydro amounted to NOK 1,499 million in 2013 and NOK 1,423 million in 2012. Hydro's capital and financing commitments are regulated in the Joint Venture agreement. Alunorf has investment commitments amounting to NOK 444 million as of December 31, 2013. Hydro's financing commitment based on its interest is NOK 189 million as of December 31, 2013. Alunorf is part of Rolled Products.

**Sør-Norge Aluminium AS (Søral)** is the fourth largest primary aluminium manufacturer in Norway located in Husnes, Hordaland. Søral has an annual production capacity of about 180,000 mt of liquid metal. Hydro owns 49.9 percent and Rio Tinto Alcan 50 percent. Each partner purchases its proportional share of production at current market prices. Hydro's purchases from Søral amounted to NOK 615 million in 2013 and NOK 667 million in 2012. Sale of alumina, metal and power from Hydro to Søral amounted to NOK 243 million in 2013 and NOK 198 million in 2012. Søral is part of Primary Metal.

**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 8,627 million in 2013 and NOK 8,549 million in 2012. Sales from Hydro to Qatalum amounted to NOK 1,904 million in 2013 and NOK 1,537 million in 2012. Qatalum is part of Primary Metal.

**SAPA AS (Sapa)** is a world leader in aluminium solutions established on September 1, 2013 by Hydro and Orkla ASA, a listed company in Norway. See note 5 for further details related to the transaction. Sapa deliver 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 1,349 million for the four months of 2013. Sapa is part of Other Activities.

The income statement and balance sheet information included in the table below is based on reported figures from the joint ventures, which could differ from Hydro's assessment of the underlying values.

Amounts in NOK million (unaudited)	2013	2012
<b>Income statement data</b>		
Revenues	27 552	13 711
Earnings before financial items and tax	(324)	(235)
Income (loss) before tax	(1 308)	(651)
Net income (loss)	(869)	(611)
<b>Balance sheet data</b>		
Current assets	21 381	6 756
Non-current assets	42 495	30 435
<b>Assets</b>	<b>63 876</b>	<b>37 191</b>
Current liabilities	12 011	2 619
Non-current liabilities	20 230	15 617
<b>Equity</b>	<b>31 635</b>	<b>18 955</b>
<b>Liabilities and equity</b>	<b>63 876</b>	<b>37 191</b>

## Note 27 - Jointly owned assets

Hydro is invested in certain assets where the legal ownership takes various forms of undivided direct ownership in the assets, and where operational and strategic decisions are made by supermajority among the owners. These arrangements are not joint ventures as defined by IFRS. Hydro accounts for its relative share of assets, liabilities, expenses and, where relevant, revenues related to these arrangements. Assets, liabilities, revenues and expenses are classified with other items of the same nature incurred as part of Hydro's controlled operations.

The most significant of these arrangements are Hydro's 20 percent ownership in the Alouette plant in Canada, and the 12.4 percent ownership in the Tomago plant in Australia. Both plants produce primary aluminium. Hydro provides alumina relative to its share of the metal production, and receives produced metal for further processing or sale. Other costs of operations,

including power consumption and labor, are incurred on a joint basis by the owners. Unrealized losses or gains relating to embedded derivatives and operational hedges associated with the physical supply of power to the plants are also incurred or earned on a joint basis by the owners.

The following key figures show the main impact of these two arrangements:

Amounts in NOK million	2013	2012
Property, plant and equipment	2 184	2 090
Share of expenses	1 092	1 201
Depreciation and amortization	258	247
Produced volume (kmt)	183	186

## Note 28 - Bank loans and other interest-bearing short-term debt

Amounts in NOK million	2013	2012
Bank loans and overdraft facilities	5 449	4 428
Other interest-bearing short-term debt	316	395
Current portion of long-term debt	429	1 133
Bank loans and other interest-bearing short-term debt	6 195	5 956

## Note 29 - Trade and other payables

Amounts in NOK million	2013	2012
Accounts payable	6 465	6 085
Payroll and value added taxes	1 230	1 198
Accrued liabilities and other payables	1 560	1 054
Trade and other payables	9 255	8 336

## Note 30 - Long-term debt

Amounts in NOK million	2013	2012
USD	2 364	2 520
NOK	1 500	1 500
Total unsecured loans	3 864	4 020
Other long-term debt	551	787
Outstanding debt	4 415	4 807
Less: Current portion	(429)	(1 133)
Total long-term debt	3 986	3 674

**Repayments of long-term debt including interest**

Amounts in NOK million	Unsecured loans	Other	Interest	Total
2014	412	17	148	578
2015	447	18	143	607
2016	482	19	135	636
2017	379	20	126	526
2018	277	21	121	419
Thereafter	1 867	456	389	2 712
<b>Total</b>	<b>3 864</b>	<b>551</b>	<b>1 063</b>	<b>5 478</b>

Norsk Hydro ASA has a USD 1,700 million, revolving multi-currency credit facility with a syndicate of international banks, maturing in November 2018, possibly extended through two one-year extension options. 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, 2013.

**Note 31 - Provisions**

Amounts in NOK million	2013			2012		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Warranties	54	-	54	46	-	46
Exit and disposal activities	70	-	70	32	1	33
Environmental clean-up and asset retirement obligations (ARO)	107	1 605	1 712	105	1 631	1 737
Employee benefits	246	351	597	167	315	482
Insurance	365	-	365	432	-	432
Other	156	666	821	68	460	528
<b>Total provisions</b>	<b>998</b>	<b>2 622</b>	<b>3 619</b>	<b>850</b>	<b>2 408</b>	<b>3 258</b>

The following table includes a specification of changes to provisions for the year ending December 31, 2013 and the expected timing of cash outflows relating to the provisions.

Amounts in NOK million	Warranties	Exit and disposal	Environmental clean-up and ARO	Employee benefits	Insurance	Other	Total
<b>Specification of change in provisions</b>							
December 31, 2012	46	33	1 737	482	432	528	3 258
Additions	108	75	221	366	20	440	1 230
Used during the year	(88)	(37)	(92)	(229)	(48)	(120)	(614)
Reversal of unused provisions	(19)	(6)	(101)	(66)	(39)	(18)	(250)
Accretion expense and effect of change in discount rate	-	-	(59)	10	-	-	(49)
Foreign currency translation	6	5	7	34	-	(8)	44
<b>December 31, 2013</b>	<b>54</b>	<b>70</b>	<b>1 712</b>	<b>597</b>	<b>365</b>	<b>821</b>	<b>3 619</b>
<b>Timing of cash outflows</b>							
2014	54	70	107	246	365	156	998
2015-2018	-	-	820	154	-	298	1 272
Thereafter	-	-	785	196	-	367	1 349
	<b>54</b>	<b>70</b>	<b>1 712</b>	<b>597</b>	<b>365</b>	<b>821</b>	<b>3 619</b>

Provisions for exit and disposal activities relate to labor force reductions, demolition costs and certain other costs.

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. See note 4 Critical accounting judgment and key sources of estimation uncertainty for additional information about environmental liabilities.

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 jointly controlled entities. Related reinsurance receivables included in Accounts receivables amounted to NOK 169 million and NOK 226 million as of December 31, 2013 and 2012, respectively.

Other include provisions for onerous contracts and certain provisions for legal and other disputes.

## Note 32 - Employee retirement plans

Hydro offers retirement plans that cover the majority of the employees. Plans and benefit levels varies between companies and countries. The majority of Hydro's employees covered by plans 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 offers benefits based on final salary level and the number of years in service. In Norway the majority of employees are covered by funded defined benefit plans with unfunded complimentary plans. Defined benefit plans also are offered in certain other countries with a limited number of participants including Canada, UK, Italy and the US. The plans provide cash pension payment, for the majority of members such payments are lifelong. A limited postemployment medical plan exists in Canada.

Amounts in NOK million	2013				2012			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
<b>Pension expense</b>								
Defined benefit plans	(190)	94	(2)	(98)	316	57	41	414
Defined contribution plans	29	-	27	56	25	-	38	64
Multiemployer plans	34	-	2	35	29	-	2	31
Termination benefits and other	102	3	14	119	49	9	(104)	(46)
Social security cost	43	-	1	44	53	-	1	54
Pension expense	17	97	42	156	473	65	(21)	517
Interest expense (income)	(5)	158	6	159	92	176	13	282
Remeasurement (gain) loss in other comprehensive income	326	7	23	357	(4 446)	957	8	(3 482)
<b>Recognized defined benefit assets and liability</b>								
Defined benefit obligation major plans	(11 681)	(5 350)	(69)	(17 100)	(10 760)	(4 649)	(72)	(15 481)
Plan assets	11 868	-	77	11 946	10 801	-	65	10 867
Reimbursement rights	309	-	-	309	279	-	-	279
Liability other plans	(116)	(40)	(166)	(322)	(110)	(32)	(122)	(263)
Social security cost	(440)	-	-	(440)	(398)	-	-	(398)
Net defined benefit liability	(60)	(5 389)	(158)	(5 607)	(188)	(4 681)	(129)	(4 997)
Recognized prepaid pension	3 543	45	7	3 595	3 038	41	-	3 080
Recognized pension liability	(3 602)	(5 434)	(166)	(9 202)	(3 226)	(4 722)	(129)	(8 077)
Net amount recognized	(60)	(5 389)	(158)	(5 607)	(188)	(4 681)	(129)	(4 997)

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	2013				2012			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
<b>Change in defined benefit obligation (DBO)</b>								
Opening Balance	(10 760)	(4 649)	(72)	(15 481)	(14 651)	(3 989)	(1 846)	(20 486)
Current service cost	(191)	(88)	(3)	(283)	(391)	(59)	66	(384)
Past service cost and settlement gain (loss)	390	(6)	8	392	16	-	84	101
Interest expense	(393)	(158)	(3)	(553)	(359)	(186)	(79)	(624)
Actuarial gain (loss) demographic assumptions	(1 456)	-	-	(1 456)	-	-	(1)	(1)
Actuarial gain (loss) economic assumptions	(7)	-	3	(4)	3 372	(1 036)	(99)	2 237
Experience gain (loss)	208	(7)	1	202	329	45	(11)	363
Payments from the plans	584	213	5	801	583	208	62	853
Termination benefits	(56)	-	-	(56)	(49)	-	-	(49)
Reclassified to discontinued operations	-	-	-	-	388	166	1 686	2 240
Effects of foreign currency translation	-	(655)	(8)	(662)	-	202	65	267
Closing Balance	(11 681)	(5 350)	(69)	(17 100)	(10 760)	(4 649)	(72)	(15 481)

#### Change in pension plan assets

Opening Balance	10 801	-	65	10 867	10 650	-	1 932	12 582
Interest income	404	-	2	407	264	-	88	352
Return on plan assets above (below) interest income	924	-	1	926	501	-	38	540
Contributions to plans	198	-	4	202	193	-	36	229
Payments from plans	(460)	-	(4)	(464)	(472)	-	(62)	(533)
Reclassified to discontinued operations	-	-	-	-	(335)	-	(1 904)	(2 239)
Effects of foreign currency translation	-	-	8	8	-	-	(63)	(63)
Closing Balance	11 868	-	77	11 946	10 801	-	66	10 867

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

Active members	(4 291)	(2 143)	(36)	(6 470)	(4 447)	(1 793)	(40)	(6 280)
Deferred members	(421)	(440)	(14)	(875)	(350)	(379)	(15)	(745)
Pensioners	(6 970)	(2 766)	(20)	(9 755)	(5 963)	(2 477)	(16)	(8 456)
Defined benefit obligation	(11 681)	(5 350)	(69)	(17 100)	(10 760)	(4 649)	(72)	(15 481)
Weighted average duration (years)	12.5	16.2			13.2	15.7		

Payments from Hydro to the pension plans and social security cost related to such payments amounted to about NOK 700 million for 2013 and 2012. The payments are expected to remain at about the same level over the next 3-5 years with a long-term declining trend.

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 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. These plans are closed for new members. New employees and employees who elected to convert to new plans are covered by defined contribution plans for salaries up to the tax deductible ceiling and unfunded contribution based plans for additional salaries. Employees who elected to convert are paid compensation for the calculated difference in pension capital at normal retirement date as a monthly cash amount. In December 2013 Hydro decided to transfer additional employee groups to the defined contribution plans with effect from June 1, 2014. About 1,250 persons will be transferred, resulting in a curtailment gain of NOK 390 million recognized in 2013. The employees will receive compensation for calculated pension losses under the same principles as in the 2010 transfer. The main, funded plans are managed by Norsk Hydros Pensjonskasse, a separate, regulated legal entity. These

plans complement the public pension schemes in Norway. Regulations of pension plans in Norway are in a period of change, however, the new regulations and effects on existing pension plans are not known.

Hydro participates in a 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 premiums 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 2013	Benefit expense 2013	Benefit obligation 2012	Benefit expense 2012
Discount rate	4.00%	3.75%	3.75%	2.50%
Expected salary increase	3.25%	3.00%	3.00%	3.25%
Expected pension increase	1.25%	1.00%	1.00%	1.75%
Mortality basis	K2013	K2005	K2005	K2005

New mortality basis for Norway was developed during 2013, and is considered the best available basis to measure Hydro's plans. The new tables are dynamic, i.e. younger employees are expected to live longer than older employees. The K2013 mortality basis results in longer expected life for members of the plans.

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	2013	2013
Discount rate increase 0.5% point	6.0%	701
Salary increase 0.5% point	(1.0%)	(117)
Pension increase 0.5% point	(6.0%)	(701)
One year longer life all members	(4.0%)	(467)

The plan assets in the funded plans provided through Norsk Hydros Pensjonskasse were invested as follows at the end of 2013 and 2012:

Amounts in NOK million, except percent	2013	2013	2012	2012
Cash and cash equivalents	1.7%	205	1.7%	186
Equity instruments Norway	15.2%	1 804	15.0%	1 624
Equity instruments other countries	12.3%	1 465	11.8%	1 279
Debt instruments	37.9%	4 500	34.3%	3 708
Investment funds	11.1%	1 322	14.2%	1 528
Real estate	21.7%	2 570	22.9%	2 474
Other	0.0%	2	0.0%	2
Total	100.0%	11 868	100.0%	10 801

Real estate consists of office buildings in the Oslo area. A significant share of the buildings are leased by Hydro and occupied or subleased. 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.

Significant actuarial assumptions for the main German plans include:

	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Weighted-average assumptions	2013	2013	2012	2012
Discount rate	3.3%	3.3%	3.3%	4.9%
Expected salary increase	2.7%	2.7%	2.7%	2.8%
Expected pension increase	2.0%	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	2013	2013
Amounts in NOK million, except percent		
Discount rate increase 0.5% point	7.4%	864
Salary increase 0.5% point	(2.0%)	(234)
Pension increase 0.5% point	(6.0%)	(701)
One year longer life all members	(3.9%)	(456)

### Note 33 - Deferred tax

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, 2013 and December 31, 2012:

Amounts in NOK million	Assets 2013	Liabilities 2013	Assets 2012	Liabilities 2012
Inventory valuation	139	(204)	163	(294)
Accrued expenses	615	(538)	453	(311)
Property, plant and equipment	4 171	(8 501)	3 832	(8 423)
Other intangible assets	778	(443)	773	(384)
Pensions	1 654	(960)	1 386	(876)
Derivatives	174	(106)	281	(58)
Other	454	(796)	365	(1 003)
Tax loss carryforwards	3 626		2 688	
Subtotal	11 611	(11 548)	9 941	(11 349)
Of which not recognized as tax asset	(1 775)		(1 732)	
Gross deferred tax assets (liabilities)	9 836	(11 548)	8 209	(11 349)

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

At the end of 2013, Hydro had tax loss carryforwards of NOK 10,017 million, primarily in Brazil, Spain, Italy and Australia. None of the losses carry forward expire before 2018. Of the total NOK 8,655 million is without expiration.

## Note 34 - Shareholders' equity

### *Share capital*

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
December 31, 2011	2 068 998 276	(32 539 257)	2 036 459 019
Treasury shares reissued to employees		1 109 143	1 109 143
December 31, 2012	2 068 998 276	(31 430 114)	2 037 568 162
Treasury shares reissued to employees		1 220 871	1 220 871
December 31, 2013	2 068 998 276	(30 209 243)	2 038 789 033

The share capital of Norsk Hydro ASA as of December 31, 2013 and 2012 was NOK 2,271,760,107 consisting of 2,068,998,276 ordinary shares at a par value of NOK 1.098 per share.

### *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, 2013 of NOK 1,006 million was comprised of NOK 33 million share capital and NOK 973 million retained earnings.

### *Earnings per share*

Basic and diluted earnings per share is computed using net income (loss) attributable to Hydro shareholders and the weighted average number of outstanding shares in each year. There are no significant diluting elements. Earnings per share from continuing operations is calculated using Income (loss) from continuing operations less the relevant net income attributable to minority interests and the weighted average number of outstanding shares in each year. Earnings per share from discontinued operations is calculated using Income (loss) from discontinued operation and the weighted average number of outstanding shares in each year. Minority interests in discontinued operations were insignificant. The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 2,038,416,268 for the year 2013 and 2,037,199,618 for 2012.

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 2013 and 2012.

Amounts in NOK million 2013 2012

**Items that will not be reclassified to income statement:**

**Remeasurement postemployment benefits**

January 1	1 804	(728)
Remeasurement postemployment benefits during the year	(357)	3 482
Reclassified to retained earnings on sale of subsidiaries	(92)	-
Deferred tax offset	142	(950)
December 31	1 496	1 804

**Remeasurement postemployment benefits equity accounted investments**

January 1	(64)	5
Remeasurement postemployment benefits during the year	46	(68)
December 31	(18)	(64)

**Items that will be reclassified to income statement:**

**Currency translation differences**

January 1	(12 208)	(3 972)
Currency translation differences during the year	2 256	(8 218)
Reclassified to Net income on sale of foreign operations	497	(18)
December 31	(9 455)	(12 208)

**Unrealized gain (loss) on securities**

January 1	(4)	45
Unrealized gain (loss) on available-for-sale securities	18	(57)
Reclassified to Net income on sale or impairment of available-for-sale securities	(51)	(23)
Tax benefit (expense)	(6)	31
December 31	(42)	(4)

**Cash flow hedges - See note 41 Derivative instruments and hedge accounting**

January 1	(63)	74
Period gain (loss) recognized in Other comprehensive income	(415)	(185)
Reclassification of hedging gain (loss) to Net income	4	(5)
Tax benefit (expense)	119	52
December 31	(355)	(63)

**Other components of equity in equity accounted investments**

January 1	(506)	(459)
Period gain (loss) recognized in Other comprehensive income	388	(32)
Reclassified to Net income	-	(16)
December 31	(118)	(506)

Total other components of equity attributable to Hydro shareholders as of December 31	(6 950)	(9 635)
Total other components of equity attributable to minority interests as of December 31	(1 542)	(1 406)

## Note 35 - 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). Hydro targets, over the business cycle, a ratio of Adjusted funds from operations of at least 40 percent of Adjusted net interest-bearing debt, and an Adjusted net interest-bearing debt to Adjusted 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 2013 net cash provided by continuing operations was 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 2013.

In 2013, Hydro signed a syndicated USD 1,700 million revolving credit facility maturing in 2018 with two potential one-year extensions, replacing a credit facility of similar size which was to mature in 2014. As of December 31, 2013 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*

Shareholder return 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 30 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 interest-bearing debt to Equity ratio to assess the group's financial standing and outlook. Net interest-bearing debt is defined as Hydro's short- and long-term interest-bearing debt adjusted for Hydro's liquidity positions. Adjusted net interest-bearing 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 Adjusted funds from operations and the ratio Adjusted funds from operations to Adjusted net interest-bearing debt as capital management measures. Adjusted funds from operations is defined as Net income adjusted for non-cash items such as depreciation, amortization and impairments, and deferred taxes. Adjustments are also made for Hydro's share of depreciation, amortization and impairments in its equity accounted investments as well as for unrealized effects on derivative contracts and certain other items.

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 interest-bearing debt and the above mentioned financial ratios are presented in the following table.

### Adjusted net interest-bearing debt to equity

Amounts in NOK million, except ratio	2013	2012
Cash and cash equivalents	8 412	7 034
Short-term investments	2 480	4 343
Bank loans and other interest-bearing short-term debt	(6 195)	(5 956)
Long-term debt	(3 986)	(3 674)
Net interest-bearing debt	711	1 747
Cash and cash equivalents and short-term investments in captive insurance company <sup>1)</sup>	(1 092)	(1 275)
Net pension obligation at fair value, net of expected income tax benefit <sup>2)</sup>	(4 913)	(4 487)
Operating lease commitments, net of expected income tax benefit <sup>3)</sup>	(1 672)	(1 915)
Net interest-bearing debt equity accounted investments <sup>4)</sup>	(6 650)	(6 077)
Short- and long-term provisions net of expected income tax benefit, and other liabilities <sup>5)</sup>	(2 536)	(2 489)
Adjusted net interest-bearing debt incl. net debt equity accounted investments	(16 154)	(14 496)
Total equity	75 264	75 498
Adjusted net interest-bearing debt / Equity ratio	0.21	0.19
Adjusted funds from operations / Adjusted net interest-bearing debt	0.34	0.39

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 interest-bearing debt.

2) The expected income tax benefit related to the net pension liability is NOK 694 million and NOK 510 million, respectively, for 2013 and 2012.

3) Operating lease commitments are discounted using a rate of 2.65 percent and 2.8 percent for 2013 and 2012, respectively. The expected tax benefit on operating lease commitments is estimated at 30 percent.

4) Net interest-bearing debt 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 interest-bearing debt per individual equity accounted investment is limited to a floor of zero. Currently, the major part of the adjustment is related to Qatalum and Sapa.

5) Consists of Hydro's short and long-term provisions related to exit and disposal activities, environmental clean-up, asset retirement obligations, net of an expected tax benefit estimated at 30 percent, and other non-current financial liabilities.

## Note 36 - 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 35 Capital management.

For fiscal year 2013 the Board of Directors has proposed a dividend of NOK 0.75 per share to be paid in May 2014. The Annual General Meeting, scheduled to be held May 7, 2014, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 1,529 million. In accordance with IFRS, the fiscal year 2013 proposed dividend is not recognized as a liability in the 2013 financial statements.

Dividends declared and paid in 2013 and 2012 for the prior fiscal year, respectively, are as follows:

	Paid in 2013 for fiscal year 2012	Paid in 2012 for fiscal year 2011
Dividend per share paid, NOK	0.75	0.75
Total dividends paid, NOK million	1 529	1 528
Date proposed	February 12, 2013	February 16, 2012
Date approved	May 8, 2013	May 8, 2012
Dividend payment date	May 23, 2013	May 22, 2012

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

## Note 37 - Guarantees

Amounts in NOK million	2013	2012
Guarantees related to jointly controlled entities	47	55
Sales guarantees	3 316	1 623
Total guarantees not recognized	3 363	1 678

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 guarantees.

## Note 38 - 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 4 Critical accounting judgment and key sources of estimation uncertainty for additional information.

Hydro is involved in a significant number of tax cases related to various types of taxes. The majority of disputed cases relates to indirect taxes in Brazil. This includes cases in the administrative and legal dispute systems with various background and risk of loss. In total known cases amounts to about NOK 3 billion including cases considered remote. 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 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. Additional obligations may be identified in the future related to existing contamination or other factors.

Hydro is of the opinion that resulting liabilities, if any, related to environmental and other legal obligations will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

## Note 39 - Contractual commitments and other commitments for future investments

Amounts in NOK million	2014	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	1 243	46	1 289
Additional authorized future investments in property, plant and equipment	87	11	98
Contract commitments for other future investments	-	-	-
<b>Total</b>	<b>1 330</b>	<b>57</b>	<b>1 387</b>

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 obligation under these commitments as of December 31, 2013 is as follows:

Amounts in NOK million	Bauxite, alumina and aluminium	Energy related	Other	Sales commit- ments
2014	5 419	6 766	916	(10 196)
2015	3 081	5 482	748	(6 425)
2016	2 220	5 488	529	(3 423)
2017	1 775	5 178	438	(1 613)
2018	1 786	4 783	390	(857)
Thereafter	22 357	18 071	3 812	(8 349)
<b>Total</b>	<b>36 638</b>	<b>45 768</b>	<b>6 833</b>	<b>(30 863)</b>

Amounts relating to contracts which are wholly or partly linked to market prices such as LME, are based on the spot price as of the balance sheet date.

Long-term sales commitments mainly relate to alumina, aluminium and electricity. Amounts include commitments for the delivery of electricity from power stations that will revert to the Norwegian government amounting to 547 GWh in 2014 and 14.4 TWh in total. Commitments relating to concession power from stations that are not subject to reversion amount to 249 GWh annually.

Hydro also has contractual commitments for the sales and purchase of products from part-owned entities. These commitments are excluded from the table above.

Hydro also has other long-term purchase and sales commitments which include variable elements which are not included in the table above.

## Note 40 - 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. Below a reconciliation of the financial instruments in Hydro is presented:

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 <sup>1)</sup>	Other financial liabilities	Non-financial assets and liabilities	Total
<b>2013</b>							
<b>Assets - current</b>							
Cash and cash equivalents	8 412	-	-	-	-	-	8 412
Short-term investments	2 480	-	-	-	-	-	2 480
Accounts receivable	-	-	7 946	-	-	1 773	9 719
Other current financial assets	181	-	-	-	-	-	181
<b>Assets - non-current</b>							
Investments accounted for using the equity method	-	-	204	-	-	18 005	18 210
Other non-current assets	179	-	656	1 544	-	3 403	5 783
<b>Liabilities - current</b>							
Bank loans and other interest-bearing short-term debt	-	-	-	-	6 195	-	6 195
Trade and other payables	-	-	-	-	5 423	3 832	9 255
Other current financial liabilities	291	184	-	-	-	-	475
<b>Liabilities - non-current</b>							
Long-term debt	-	-	-	-	3 986	-	3 986
Other non-current financial liabilities	(668)	407	-	-	2 336	-	2 075
<b>2012</b>							
<b>Assets - current</b>							
Cash and cash equivalents	7 034	-	-	-	-	-	7 034
Short-term investments	4 343	-	-	-	-	-	4 343
Accounts receivable	-	-	7 148	-	-	1 612	8 761
Other current financial assets	336	-	-	-	-	-	336
<b>Assets - non-current</b>							
Investments accounted for using the equity method	-	-	258	-	-	9 976	10 234
Other non-current assets	490	8	678	1 453	-	3 262	5 892
<b>Liabilities - current</b>							
Bank loans and other interest-bearing short-term debt	-	-	-	-	5 956	-	5 956
Trade and other payables	-	-	-	-	5 250	3 086	8 336
Other current financial liabilities	416	50	-	-	-	-	466
<b>Liabilities - non-current</b>							
Long-term debt	-	-	-	-	3 674	-	3 674
Other non-current financial liabilities	(105)	155	-	-	2 057	-	2 107

<sup>1)</sup> Includes the investment in the independent pension trust Norsk Hydros Pensjonskasse, carried at 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.

Realized and unrealized gains and losses from financial instruments and contracts accounted for as financial instruments are in the income statement included in several line items. 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>2013</b>							
<b>Income statement line item</b>							
Revenue	(127)	9	-	-	-	-	(118)
Raw material and energy expense	301	104	-	-	-	-	405
Other expense	(158)	-	-	-	-	-	(158)
Financial income	(109)	-	-	(66)	-	-	(174)
Financial expense	(75)	-	-	-	-	-	(75)
<b>Gain/loss directly in Other comprehensive income</b>							
Recognized directly in Other comprehensive income (before tax)				(18)			
Removed from Other components of equity and recognized in the income statement				51			
<b>2012</b>							
<b>Income statement line item</b>							
Revenue	(150)	-	-	-	-	-	(150)
Raw material and energy expense	(600)	-	-	-	-	-	(600)
Other expense	(208)	-	-	-	-	-	(208)
Financial income	(56)	-	-	(75) <sup>2)</sup>	-	-	(131)
Financial expense	27	-	-	-	-	-	27
<b>Gain/loss directly in Other comprehensive income</b>							
Recognized directly in Other comprehensive income (before tax)				56			
Removed from Other components of equity and recognized in the income statement				23			

1) Amount indicates the total gains and losses to financial instruments for each specific income statement line item.

2) Includes dividends, realization of shares, and impairments from equity instruments classified as available-for-sale.

Currency effects, with the exception of currency derivatives, are not included above. Negative amounts indicate a gain.

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	2013	Level 1	Level 2	Level 3	2012	Level 1	Level 2	Level 3
<b>Assets</b>								
Commodity derivatives	283	70	77	137	821	172	121	528
Currency derivatives	77	-	77	-	-	-	-	-
Cash flow hedges	-	-	-	-	14	-	14	-
Securities held for trading	1 025	304	712	9	1 253	429	815	9
Available for sale financial assets	1 009	-	-	1 009	918	-	-	918
<b>Total</b>	<b>2 394</b>	<b>374</b>	<b>866</b>	<b>1 155</b>	<b>3 006</b>	<b>601</b>	<b>950</b>	<b>1 455</b>
<b>Liabilities</b>								
Commodity derivatives	(670)	(91)	(44)	(535)	(1 118)	(77)	(44)	(997)
Cash flow hedges	(591)	-	(126)	(465)	(205)	-	-	(205)
Other non-current financial liabilities	1 047	-	-	1 047	807	-	-	807
<b>Total</b>	<b>214</b>	<b>(91)</b>	<b>(170)</b>	<b>47</b>	<b>(516)</b>	<b>(77)</b>	<b>(44)</b>	<b>(395)</b>

The following is an overview in which changes in level 3 measurements are specified:

Amounts in NOK million	Commodity derivatives		Cash flow hedges	Available for sale financial assets	Other
	Assets	Liabilities			
December 31, 2011	387	(1 764)	-	1 052	670
Total gains (losses) in income statement	239	555	(5)	(22)	197
in Other comprehensive income	-	-	(200)	(56)	-
Purchases	-	-	-	2	-
Issues	-	(10)	-	-	-
Settlements	(39)	213	-	(11)	(2)
Currency translation difference	(59)	8	-	(45)	(49)
December 31, 2012	528	(997)	(205)	918	816
Total gains (losses) in income statement	(352)	227	1	(55)	178
in Other comprehensive income	-	-	(261)	18	-
Purchases	-	-	-	10	-
Settlements	(36)	242	-	(3)	(20)
Currency translation difference	(2)	(8)	-	121	82
December 31, 2013	137	(535)	(465)	1 009	1 056
Total gains (losses) for the period	(391)	462	(260)	(55)	178
Total gains (losses) for the period included in the income statement for assets held at the end of the reporting period	(391)	407	(260)	(5)	178

Gains or losses relating to level 3 commodity derivatives appearing in the 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. Please see note 6 Financial and commercial risk management for more detail on valuation methodology and limitations inherent in the analysis. The following is an overview of such sensitivity:

Amounts in NOK million	Gain (loss) from 10 percent increase in				Gain (loss) from 10 percent decrease in			
	USD	Aluminium	Other commodity	Interest rates	USD	Aluminium	Other commodity	Interest rates
Commodity derivatives	(273)	(78)	(165)	(12)	273	105	165	16
Available for sale financial assets	400	-	-	(92)	(400)	-	-	110

## Note 41 - Derivative instruments and hedge accounting

Derivative instruments, whether physically or financially settled, are accounted for under IAS 39. All derivative instruments are accounted for on the balance sheet 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 which physical commodity contracts that are accounted for as derivatives, and which are considered own use, see note 1 Significant accounting policies and reporting entity.

### *Commodity derivatives*

The following types of commodity derivatives were recorded at fair value on the balance sheet as of December 31, 2013 and December 31, 2012. 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 include the fair value of traditional derivative instruments such as futures, forwards and swaps, in conjunction with the physical contracts accounted for at fair value.

Amounts in NOK million	2013	2012
<b>Assets</b>		
Electricity contracts	56	82
Aluminium futures, forwards and options	228	739
<b>Total</b>	<b>283</b>	<b>821</b>
<b>Liabilities</b>		
Electricity contracts	(53)	(38)
Coal forwards	(863)	(1 041)
Aluminium futures, forwards and options	326	88
Other	(80)	(127)
<b>Total</b>	<b>(670)</b>	<b>(1 118)</b>

The underlying commodities for bifurcated embedded derivatives are included.

Changes in the fair value of commodity derivatives are included in operating revenues or cost of goods sold.

### *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 aluminium, inflation and coal links from the underlying contracts.

### *Cash flow hedges*

Hydro has periodically entered into hedge programs to secure the price of aluminium and alumina to be sold. Aluminium futures, options and swaps on the London Metal Exchange and with external banks 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 of aluminium or alumina 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 has also hedged part of the US dollar exposure on sales of alumina and aluminium to be produced in the Brazilian plants Alunorte and Albras. USD 863 million and USD 134 million were sold forward in 2013 and 2012 respectively. All of the remaining forward instruments mature in 2014 at an average rate of 2.41 BRL/USD.

Ineffectiveness amounting to NOK 1 million and NOK 5 million was recognized in the income statement in 2013 and in 2012 respectively.

The table below gives aggregated numbers related to the cash flow hedges for the period 2012 to 2013.

	2014	2013	2012
Expected to be reclassified to the income statement during the year (NOK million)	(52)	(25)	5
Reclassified to the income statement from Other components of equity (NOK million) <sup>1)</sup>		(2)	3

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

As of December 31, 2013 a liability of NOK 591 million were recognized on the balance sheet as fair value of hedging instruments. As of December 31, 2012 such hedging instruments amounted to an asset of NOK 14 million and a liability of NOK 205 million.

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 equity relating to cash-flow hedges for 2013 and 2012, please see note 34 Shareholders' equity.

### *Fair Value of Derivative Instruments*

The fair market 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 OMX Commodities Europe/EEEX (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 3 Basis of presentation and measurement of fair value. See note 40 Financial instruments for a specification of the classification of derivative positions according to a fair value hierarchy.

## Note 42 - Cash flow information

### Reconciliation of cash and cash equivalents

Amounts in NOK million	2013	2012
Cash and cash equivalents	8 412	7 034
Bank overdraft	(4)	(1)
Cash, cash equivalents and bank overdraft	8 408	7 033

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

Amounts in NOK million	2013	2012
Income taxes paid	1 125	1 786
Interest paid	436	302
Interest received	235	286
Other dividends received	33	12

## Note 43 - Auditor remuneration

KPMG AS is the Group auditor of Norsk Hydro ASA.

The following table shows fees to KPMG for 2013 and 2012. For all categories the reported fee is the recognized expense for i

Amounts in NOK million	Audit	Audit related	Other <sup>1)</sup> services	Tax related	Total
<b>2013</b>					
Norway	10	2	1	1	14
Outside Norway	10	-	-	-	10
Total	20	2	1	1	24
<b>2012</b>					
Norway	10	-	1	-	12
Outside Norway	18	-	-	-	18
Total	27	1	1	-	30

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

## Note 44 - 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. 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 2013 for the chairperson of the board, deputy chairperson and directors are NOK 565,000 (2012: NOK 550,000), NOK 355,000 (2012: NOK 345,000) and NOK 310,000 (2012: NOK 300,000), respectively. The chairperson of the audit committee and the chairperson of the compensation committee receive an additional NOK 180,000 (2012: NOK 175,000) and NOK 103,000 (2012: NOK 100,000) annually in fees, respectively, and audit and compensation committee members receive NOK 117,000 (2012: NOK 113,500) and NOK 77,000 (2012: NOK 75,000) annually, respectively, for their participation on these committees.

Total board fees and individual board member fees for 2013 and 2012, and outstanding loans and board member share ownership as of December 31, 2013 and 2012, are presented in the tables below.

### Board of Directors' fees

Amounts in NOK thousand	2013	2012
Fees and other remuneration paid to board members during the year	4 577	4 281
Fees paid in prior year for service rendered in current year	-	9
<b>Total fees for board services provided to Hydro during the year</b>	<b>4 577</b>	<b>4 290</b>
Fees and other remuneration - normal board activities	3 712	3 450
Fees - compensation committee	334	325
Fees - audit committee	531	516
<b>Total fees for board services provided to Hydro during the year</b>	<b>4 577</b>	<b>4 290</b>

Board member	Board fees <sup>1)</sup>		Outstanding loans <sup>1) 2)</sup>		Number of shares <sup>3)</sup>	
	2013	2012	2013	2012	2013	2012
Terje Vareberg <sup>4)</sup>	670	650	-	-	28 391	18 391
Inge K. Hansen <sup>5)</sup>	535	486	-	-	12 000	12 000
Finn Jebsen <sup>6)</sup>	387	375	-	-	53 406	53 406
Eva Persson <sup>7)</sup>	427	414	-	-	-	-
Liv Monica Stubholt <sup>8)</sup>	387	375	-	-	-	-
Dag Mejdell <sup>9)</sup>	427	203	-	-	13 400	13 400
Pedro Rodrigues <sup>10)</sup>	310	75	-	-	-	-
Victoire de Margerie <sup>11)</sup>	310	75	-	-	-	-
Billy Fredagsvik <sup>12) 13)</sup>	310	376	175	55	2 826	2 459
Sten Roar Martinsen <sup>12) 14)</sup>	387	375	-	-	3 882	3 515
Ove Ellefsen <sup>12) 15)</sup>	427	328	-	-	3 211	2 844
Bente Rathe <sup>16)</sup>	-	349	-	-	-	29 000
Tito Martins <sup>17)</sup>	-	200	-	-	-	-
<b>Total</b>	<b>4 577</b>	<b>4 281</b>	<b>175</b>	<b>55</b>	<b>117 116</b>	<b>135 015</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, 2013 and 2012 for board members as of December 31, 2013 and 2012; otherwise loans are as of the date the individual stepped down from the Board of Directors. At the end of 2013, the loans to Billy Fredagsvik have interest rates of 3.75 and 7.50 percent. One loan was repaid in February 2014, and the other loan has a repayment period of 1.5 years. 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, 2013 and 2012 for board members as of December 31, 2013 and 2012; otherwise it is the number of shares owned as of the date the individual stepped down from the Board of Directors. Shareholdings disclosed include shares held by close members of family and controlled entities, in addition to shares held directly by the board member.

4) Chairperson of the board and chairperson of the board compensation committee.

5) Deputy chairperson of the board as of October 1, 2012. 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 compensation committee.

9) Member of the board as of May 25, 2012. Member of the board audit committee as of October 1, 2012.

10) Member of the board as of September 21, 2012.

11) Member of the board as of October 1, 2012.

12) 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.

13) Member of the board audit committee until October 1, 2012.

14) Member of the board compensation committee.

15) Member of the board audit committee as of October 1, 2012.

16) Deputy chairperson of the board and member of the board audit committee until October 1, 2012.

17) Member of the board until August 13, 2012.

### Corporate Assembly

Corporate Assembly members owned 122,215 shares as of December 31, 2013. 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 272 thousand as of December 31, 2013. The interest rate on these loans is 3.75 percent with a repayment period of 4 years.

## Note 45 - Related party information

As of December 31, 2013, The Norwegian state had ownership interests in Hydro through the Ministry of Trade and Industry and Folketrygdfondet, which manages the Government Pension Fund - Norway. The Ministry of Trade and Industry held 34.8 percent of total shares outstanding (2012: 34.8 percent). Folketrygdfondet held 5.7 percent (2012: 4.0 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.

Vale Austria Holdings GmbH, a wholly owned subsidiary of Vale S.A., sold all its shares in Norsk Hydro ASA in November 2013. Vale received its 22 percent holding in Hydro as consideration for Hydro's acquisition of Vale Aluminium in 2011. Hydro has concluded that the Vale's shareholding represented significant influence in Hydro, and that Vale thus was a related party until the sale.

Long-term purchase contracts for bauxite with Vale were entered into as part of the acquisition in 2011. The contracts provides Hydro right and obligation to purchase bauxite from Vale at a price formula consisting of a fixed element and a variable element linked to the price of aluminium and alumina. In addition, some supply arrangements for the acquired entities with Vale S.A and its subsidiaries exists for such deliveries as energy supply and certain administrative and other services. The majority of these arrangements are of a transitional nature.

The Norwegian state has ownership interests in a substantial number of companies. The ownership interests in 71 companies are managed by the ministries and covered by public information from the Ministry of Trade and Industry <sup>1)</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.

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 arrangements were priced based on market price benchmarks at inception and has a remaining life of around 7 years. Hydro has paid a total rental of NOK 196 million and NOK 195 million for 2013 and 2012, respectively. 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.

The members of Hydro's board of directors during 2013 and 2012 are stated in note 44 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. 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 25 Investments in associates. Hydro's significant jointly controlled entities and transactions with those entities are described in note 26 Investments in jointly controlled entities. Hydro has joint venture 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) According to information on the Government web site [www.regjeringen.no](http://www.regjeringen.no), state ownership

## Financial statements Norsk Hydro ASA

### Income statements

Amounts in NOK million	Notes	2013	2012
Revenue		201	401
Gain (loss) on sale of subsidiaries and associates, net		7	(3)
<b>Total revenue and income</b>		<b>207</b>	<b>398</b>
Employee benefit expense	2, 3	356	424
Depreciation and amortization expense	4, 5	30	27
Impairment of non-current assets	4, 5	83	5
Other		592	393
<b>Total operating expenses</b>		<b>1 061</b>	<b>849</b>
<b>Operating loss</b>		<b>(854)</b>	<b>(450)</b>
Financial income, net	6	2 821	99
Income (loss) before tax		1 967	(352)
Income taxes	7	33	(27)
<b>Net income</b>		<b>2 000</b>	<b>(378)</b>
<b>Appropriation of net income and equity transfers</b>			
Dividend proposed		(1 529)	(1 528)
Retained earnings		(471)	1 906
<b>Total appropriation</b>		<b>(2 000)</b>	<b>378</b>

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

## Balance sheets

Amounts in NOK million, December 31

Notes 2013 2012

### Assets

Other intangible assets	5	40	46
Intangible assets		40	46
Property, plant and equipment	4	176	185
Shares in subsidiaries	8	56 666	56 672
Receivables from subsidiaries		22 400	21 834
Prepaid pension, investments and other non-current assets	2, 10	3 626	3 340
Total financial non-current assets		82 692	81 845
Receivables from subsidiaries		4 169	5 010
Prepaid expenses and other current assets		119	151
Short-term investments		1 250	3 050
Cash and cash equivalents		7 080	5 344
Total current assets		12 618	13 555
Total assets		95 527	95 631

### Equity and liabilities

#### Paid-in capital

Share capital	13	2 272	2 272
Treasury shares	13	(33)	(35)
Paid-in premium	13	28 987	28 987
Other paid-in capital	13	61	69
<b>Retained earnings</b>			
Retained earnings	13	28 415	27 933
Treasury shares	13	(973)	(1 013)
Equity	13	58 729	58 213

Long-term provisions	2, 10	2 528	2 228
Long-term debt	12	2 941	2 993
Payables to subsidiaries		6 259	5 346
Other long-term liabilities		9 200	8 338
Bank loans and other interest-bearing short-term debt		524	1 301
Dividends payable		1 529	1 528
Payables to subsidiaries		21 585	22 741
Other current liabilities	7	1 431	1 281
Total current liabilities		25 070	26 852
Total equity and liabilities		95 527	95 631

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

**Statements of cash flows**

Amounts in NOK million	2013	2012
Net income (loss)	2 000	(378)
Depreciation, amortization and impairment	113	32
Loss on sale of non-current assets, net	-	2
Changes in receivables and payables, and other items	534	1 778
<b>Net cash provided by operating activities</b>	<b>2 647</b>	<b>1 434</b>
Purchases of short-term investments	(1 250)	(3 050)
Proceeds from sales of short-term investments	3 050	-
Net purchases of other investments	(91)	(23)
<b>Net cash provided by (used in) investing activities</b>	<b>1 709</b>	<b>(3 073)</b>
Dividends paid	(1 529)	(1 528)
Proceeds from shares issued	23	25
Other financing activities, net	(1 252)	2 273
<b>Net cash provided by (used in) financing activities</b>	<b>(2 758)</b>	<b>770</b>
Foreign currency effects on cash	137	(109)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1 735</b>	<b>(978)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>5 344</b>	<b>6 322</b>
<b>Cash and cash equivalents at end of year</b>	<b>7 080</b>	<b>5 344</b>

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 when performing any net present value analysis, or measurement of post retirement obligations, are rounded to the nearest 25 basis points. 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 1 Significant accounting policies and reporting entity to the consolidated financial statements for additional information. Hydro implemented IAS 19 as revised in 2011 as of January 1, 2013 and changed the classification of the interest component of employee benefits. The changes are made with retrospective application. The changes to previously reported information are shown in the table below.

Amounts in NOK million	Year 2012	
	Effect of IAS19R	Adjusted
Employee benefit expense	54	424
Financial income, net	(22)	99
Income taxes	21	(27)
Net income (loss)	(54)	(378)
Remeasurements	1 147	1 147

Amounts in NOK million	January 1, 2012		December 31, 2012	
	Effect of IAS19R	Adjusted	Effect of IAS19R	Adjusted
Deferred tax asset	131	131	(95)	-
Prepaid pension, investments and other non-current assests	(320)	2 259	731	3 340
Total assets	(189)	95 822	805	117 357
Equity	(337)	58 936	756	58 213
Long-term provisions	148	2 568	(120)	2 228

#### *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.

### *Research and development*

Research costs are expensed as incurred. Development costs are capitalized as an intangible asset at cost if, and only if, (a) it is probable that the future economic benefit that is attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. 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 capitalization are met.

### *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.

### *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 1 Significant accounting policies and reporting entity to the consolidated accounts for additional information.

### *Risk management*

For information about risk management in Norsk Hydro ASA see note 6 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 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. These plans are closed for new members. New employees and employees who elected to convert to new plans in 2010 are covered by a defined contribution plan for salaries up to the tax deductible ceiling and unfunded contribution based plans for additional salaries. Employees who elected to convert are paid compensation for the calculated difference in pension capital at normal retirement date as a monthly cash amount. In December 2013 Hydro decided to transfer additional employee groups to the defined contribution plans with effect from June 1, 2014. About 80 persons will be transferred, resulting in a curtailment gain of NOK 66 million recognized in 2013. The employees will receive compensation for calculated pension losses under the same principles as in the 2010 transfer. The main, funded plans are managed by Norsk Hydros Pensjonskasse, a separate, regulated legal entity. These plans complement the public pension schemes in Norway. The plans comply with minimum requirements for pension plans in Norway. Regulation of pension plans in Norway is in a period of change, however, the new regulations and effects on existing pension plans are not known.

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 (avtafestet pensjon, AFP) where also the Norwegian state contributes. The plan is a defined benefit plan with limited funding and where plan assets are not segregated. The information required to calculate the share of the plan and account for the plan as a defined benefit plan is not available from the plan administrator. Hydro therefore accounts for the plan as if it were a defined contribution plan. The annual premiums have increased since inception and are expected to increase further. The employer contributions are included in Multiemployer plans.

### Pension cost

Amounts in NOK million	2013	2012
Defined benefit plans	(4)	105
Defined contribution plans	7	7
Multiemployer plans	4	4
Termination benefits and other	23	19
Social security cost	10	22
Pension expense	39	157
Interest expense (income)	(29)	22
Remeasurement (gain) loss directly to equity	(18)	(1 593)

**Recognized defined benefit assets and liability**

Amounts in NOK million	2013	2012
Defined benefit obligation major plans	(5 193)	(4 850)
Plan assets	5 970	5 472
Reimbursement rights	309	279
Liability other plans	(31)	(31)
Social security cost	(264)	(247)
Net defined benefit asset	791	623
Recognized prepaid pension	2 943	2 618
Recognized pension liability	(2 152)	(1 995)
Net amount recognized	791	623

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

Amounts in NOK million	2013	2012
Opening Balance	(4 850)	(6 400)
Current service cost	(60)	(99)
Past service cost	66	157
Interest expense	(176)	(155)
Actuarial gain (loss) demographic assumptions	(638)	-
Actuarial gain (loss) economic assumptions	(3)	1 225
Experience gain (loss)	145	106
Payments from the plans	330	330
Terminations benefits	(7)	(14)
Closing Balance	(5 193)	(4 850)

**Change in pension plan assets**

Amounts in NOK million	2013	2012
Opening Balance	5 472	5 370
Interest income	204	133
Return on plan assets above (below) interest income	488	243
Contributions to plans	45	55
Payments from plans	(240)	(245)
Settlements	-	(83)
Closing Balance	5 970	5 472

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

Amounts in NOK million	2013	2012
Active members	(1 431)	(1 572)
Deferred members	(278)	(232)
Pensioners	(3 484)	(3 046)
Defined benefit obligation	(5 193)	(4 850)

Assumptions	2013 Benefit obligation	2013 Benefit expenditure	2012 Benefit obligation	2012 Benefit expenditure
Discount rate	4.00%	3.75%	3.75%	2.50%
Expected salary increase	3.25%	3.00%	3.00%	3.25%
Expected pension increase	1.25%	1.00%	1.00%	1.75%
Mortality basis	K2013	K2005	K2005	K2005

See note 32 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 11 Employee and management remuneration in the notes to the consolidated financial statements for information and details related to the Corporate Management Board remuneration. Costs for 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 44 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.

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 6 million in 2013, unchanged from 2012. Audit related fees were NOK 2 million in 2013. Fees for other services were NOK 1 million in both 2013 and 2012.

The average number of employees in Norsk Hydro ASA was 418 in 2013 as compared to 510 in 2012. As of year end 2013 and 2012, Norsk Hydro ASA employed 400 and 436 employees, respectively.

Total loans given by Norsk Hydro ASA to Norwegian employees as of December 31, 2013 were NOK 138 million. Loans to employees consist of NOK 88 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of December 31, 2013 related to the employee share purchase plan was NOK 5 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 Payroll and related costs. Employee related payroll expenses, on a net basis, are given in the table below.

Amounts in NOK million	2013	2012
<b>Payroll and related costs:</b>		
Salaries	497	685
Social security costs	62	81
Social benefits	3	2
Pension expense (note 2)	39	157
Internal invoicing of payroll related costs	(244)	(502)
<b>Total</b>	<b>356</b>	<b>424</b>

## Note 4 - Property, plant and equipment

Operating lease expense amounted to NOK 200 million in 2013 and NOK 201 million in 2012. The company has the following future operating lease commitments under non-cancellable leases: 2014: NOK 201 million, 2015: NOK 201 million, 2016: NOK 201 million, 2017: NOK 201 million, 2018: NOK 201 million and thereafter: NOK 439 million.

Amounts in NOK million	Land	Buildings	Machinery, etc	Plant under construction	Total
Cost December 31, 2012	6	103	229	1	340
Additions at cost	-	74	-	21	95
Retirements	-	-	(1)	-	(1)
Transfers	-	12	9	(20)	-
Accumulated depreciation December 31, 2013	-	(90)	(167)	-	(257)
Carrying value December 31, 2013	6	99	70	3	176
Depreciation in 2013	-	(7)	(16)	-	(23)
Impairment in 2013	-	(42)	(38)	-	(80)

Impairment in 2013 of NOK 80 million relates to equipment at Hydro's head office at Vækerø. Also related to the head office, a provision of NOK 312 million for future rental cost in excess of the benefit through sub-rentals and own use of the premises, have been recognized in 2013.

## Note 5 - Intangible assets

Amounts in NOK million	Cost	Accumulated amortization	Carrying value
Balance December 31, 2012	90	(44)	46
Additions at cost	4	-	4
Disposals	(4)	4	-
Amortization for the year	-	(7)	(7)
Impairment loss	-	(3)	(3)
Balance December 31, 2013	90	(49)	40

## Note 6 - Financial income and expense

Amounts in NOK million	2013	2012
Dividends from subsidiaries	<b>3 167</b>	4
Interest from group companies	<b>862</b>	1 025
Other interest income	<b>121</b>	138
Interest paid to group companies	<b>(383)</b>	(445)
Other interest expense	<b>(169)</b>	(143)
Net foreign exchange gain (loss)	<b>(821)</b>	(447)
Other, net	<b>44</b>	(33)
Financial income, net	<b>2 821</b>	99

## 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	
	2013	2012
Short-term items	42	37
Pensions	(214)	(178)
Other long-term items	86	(58)
Deferred tax assets (liabilities)	(86)	(199)

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	2013	2012
Income (loss) before taxes	1 967	(352)
Expected income taxes at statutory tax rate	551	(98)
Permanent differences and other, net	(583)	125
Income taxes	(33)	27

### Components of income tax

Current income tax	86	169
Change in deferred tax	(119)	(143)
Income tax	(33)	27

See note 17 Income tax expense and note 33 Deferred tax in the consolidated financial statements for further information.

Taxes payable were NOK 778 million both per December 31, 2013 and 2012.

## Note 8 - Shares in subsidiaries

Company name	Currency	Percentage of	Total share	Book value (NOK million)
		shares owned by Norsk Hydro ASA	capital of the company (1,000's)	
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
Grenland Industriutvikling AS	NOK	100.00	26 750	88
Hærøya Industripark AS	NOK	100.00	9 680	62
Norsk Hydro Plastic Pipe AS	NOK	100.00	10 000	34
Industriforsikring AS	NOK	100.00	20 000	20
Hærøya Nett AS	NOK	100.00	1 760	11
Hydro Kapitalforvaltning AS	NOK	100.00	2 500	4
Total				56 666

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.

The carrying value of the shares held in Norsk Hydro Plastic Pipe AS has been written down by NOK 5 million in 2013.

## Note 9 - Related party information

See note 45 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. Vale S.A. was a related party through its 22 percent shareholding until it sold all of its shares in Norsk Hydro ASA in November 2013.

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 markets 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 cost for corporate staff services and shared services to subsidiaries. The total amount allocated was NOK 185 million in 2013 and NOK 223 million in 2012.

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 audit fees and note 11 Employee and management remuneration in the notes to the consolidated financial statements. For information on transactions with Board of Directors and Corporate Assembly see note 44 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	2013	2012
Securities	536	536
Prepaid pension	2 943	2 618
Associates and jointly controlled entities	8	13
Other non-current assets	139	173
<b>Total prepaid pension, investments and other non-current assets</b>	<b>3 626</b>	<b>3 340</b>
Pension liability	2 152	1 995
Deferred tax liabilities	86	199
Other long-term provisions	290	33
<b>Long-term provisions</b>	<b>2 528</b>	<b>2 228</b>

## Note 11 - Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, performance bonds and various payment or financial guarantees. See note 37 Guarantees in the consolidated financial statements for additional information. All commercial guarantees are on behalf of subsidiaries.

Amounts in NOK million	2013	2012
Guarantees related to jointly controlled entities	47	55
Commercial guarantees	3 079	3 961
<b>Total guarantees not recognized</b>	<b>3 126</b>	<b>4 016</b>

## Note 12 - Long-term debt

As of December 31, 2013, long-term debt amounted to NOK 2,941 million, of which NOK 1,867 million fall due after 2018. As of December 31, 2012, long-term debt amounted to NOK 2,993 million. See note 30 Long-term debt in notes to the consolidated financial statements for further information.

## Note 13 - Number of shares outstanding, shareholders and equity reconciliation

The share capital of Norsk Hydro ASA as of December 31, 2013 was NOK 2,271,760,107 consisting of 2,068,998,276 ordinary shares at NOK 1.098 per share. As of December 31, 2013 Norsk Hydro ASA had purchased 30,209,243 treasury shares at a cost of NOK 1,006 million. See Consolidated statements of changes in equity and note 34 Shareholders' equity for additional information.

The table shows shareholders holding one percent or more of the total 2,038,789,033 shares outstanding as of December 31, 2013, according to information in the Norwegian securities' registry system (Verdipapirsentralen).

### Number of shares outstanding, shareholders, equity reconciliation

Name	Number of shares
The Ministry of Trade and Industry of Norway	708 865 253
Folketrygdfondet	116 579 766
The Northern Trust Co. <sup>1)</sup>	93 353 696
Clearstream Banking S.A. <sup>1)</sup>	71 783 713
Euroclear Bank S.A./N.V. ('BA') <sup>1)</sup>	67 049 958
State Street Bank and Trust Co. <sup>1)</sup>	45 470 689
Varma Mutual Pension Insurance	23 900 000
DnB Nor Bank ASA	23 196 623
Skagen Global	20 865 878

1) Nominee accounts.

### Changes in equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
December 31, 2012	31 293	26 164	57 458
Effect of change in accounting principle (Note 1)		756	756
December 31, 2012 adjusted	31 293	26 920	58 213
Net income		2 000	2 000
Remeasurement postemployment benefits		12	12
Dividend proposed		(1 529)	(1 529)
Treasury shares	(6)	39	33
December 31, 2013	31 287	27 441	58 729

## Responsibility Statement

We confirm to the best of our knowledge that the consolidated financial statements for 2013 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 2013 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.

Oslo, March 11, 2014

  
**TERJE VAREBERG**  
 Chair

  
**INGE K. HANSEN**  
 Deputy chair

  
**LIV MONICA BARGEM STUBHOLT**  
 Board member

  
**OVE ELLEFSEN**  
 Board member

  
**BILLY FREDAGSVIK**  
 Board member

  
**FINN JEBSEN**  
 Board member

  
**VICTOIRE DE MARGERIE**  
 Board member

  
**STEN ROAR MARTINSEN**  
 Board member

  
**DAG MEJDELL**  
 Board member

  
**EVA PERSSON**  
 Board member

  
**PEDRO JOSÉ RODRIGUES**  
 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 2013, 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 consolidated balance sheets as at 31 December 2013, the consolidated income statements, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows 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 2013, 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 2013, 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 statements on Corporate Governance and Corporate Social Responsibility*

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 statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

#### *Opinion on Accounting Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that 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, 11 March 2014  
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 2013 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2013 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 2013 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, March 11, 2014

Siri Teigum



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.

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**HYDRO**

*Infinite aluminium*