HYDRO

Annual Report – 2012

Key figures

Amounts in NOK million unless other unit indicated	2012	2011
Revenue	64 181	71 500
Underlying EBIT : (a)		
Bauxite & Alumina	(791)	887
Primary Metal	314	2 486
Metal Markets	208	441
Rolled Products	640	673
Energy	1 459	1 883
Other and eliminations	(672)	(389)
Total	1 158	5 982
Net Income	(1 246)	6 749
Underlying return on average capital employed (RoaCE), percent	0.7%	6.4%
Investments (b)	3 382	47 510
Total assets	116 552	132 554
Share price year-end, NOK	27.88	27.74
Dividend per share, NOK	0.75	0.75
Number of employees, year-end (c)	21 566	22 813
Recordable injuries, per million hours worked	3.4	3.8
Greenhouse gas emissions, million tonnes CO2e (d)	7.4	7.5

Highlights

RESPONDING TO CHALLENGING MARKET CONDITIONS

Weak global economic conditions contributed to low and volatile aluminium prices. Economic developments for Hydro's core European markets in particular resulted in weaker downstream demand. Cost reduction programs generated substantial savings and new initiatives have been implemented. Hydro decided to close its Kurri Kurri plant in Australia. Higher cost remelting has been significantly reduced. Substantial curtailments, closure and divestments have been executed within extrusion operations.

WELL POSITIONED

In 2012, Hydro strengthened its ambitious repositioning drive with improvement programs across the value chain. Following five years of major repositioning initiatives, the construction of Qatalum and the acquisition of Vale aluminium, Hydro announced a major joint venture agreement, Sapa, aimed at transforming its extrusion operations. A favorable industry position, captive sources of key raw materials, combined with financial strength and flexibility place Hydro in a strong position within and industry with solid long term fundamentals.

(a)

Underlying EBIT

Underlying EBIT declined to NOK 1,158 million compared with NOK 5,982 in 2011, heavily impacted by low aluminium and alumina prices. Strong focus on reducing cost and improving operations generated substantial savings partly offsetting the negative market effects.

(b)

Investments

During 2012, 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.

(c)

Number of employees

The decrease in the number of employees in 2012 followed closures and divestments as well as improvment programs in all businss areas. This included closure of production at the Kurri Kurri plant in Australia with 550 employees.

(d)

Greenhouse gas emissions

The greenhouse gas emissions from Hydro's current consolidated activities decreased by 2 percent in 2012, compared with 2011. The total emissions from our ownership equity – including indirect emissions from electricity generation – decreased by 11 percent.

Annual Report – 2012

HYDRO'S REPORTING 2012

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

The "Annual report – 2012" is available in PDF-format on our website www.hydro.com/reporting2012 in English. The "Board of Directors' report and Financial Statements – 2012" is also available in PDF-format as a separate document in both English and Norwegian. All parts of the reports can be downloaded and printed in PDF-format, together with additional, supplementary information. Paper copies of the reports can also be ordered on our website.

RESULTS DECLINE

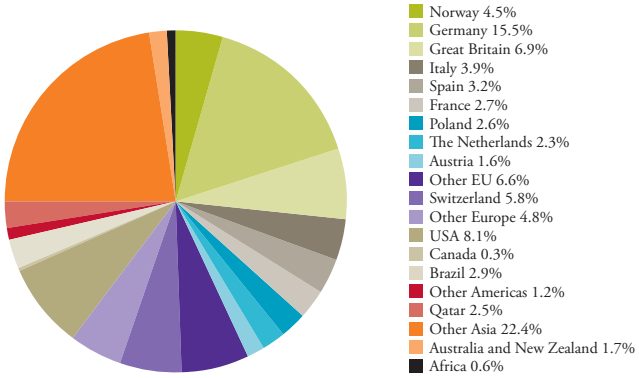
Weak economic development impact Hydro's underlying operating results
Hydro had underlying EBIT of NOK 1,158 million in 2012 compared with NOK 5,982 million in the previous year. Low aluminium and alumina prices had a significant effect on underlying results for the year. Relentless focus on reducing costs and improving operations generated substantial savings partly offsetting the negative market effects.

Bauxite production reached record levels for the year amounting to 9.2 million metric tons. In 2012 alumina produced amounted to 5.8 million metric tonnes, with sales of 7.2 million metric tonnes. Primary aluminium production was 2.0 million mt and we delivered 2.9 million metric tons of casthouse products to internal and external customers. Downstream, we shipped roughly 910 kmt of rolled products and 510 kmt of extruded products to the market. Our energy business produced around 10.3 TWh of renewable hydroelectric power.

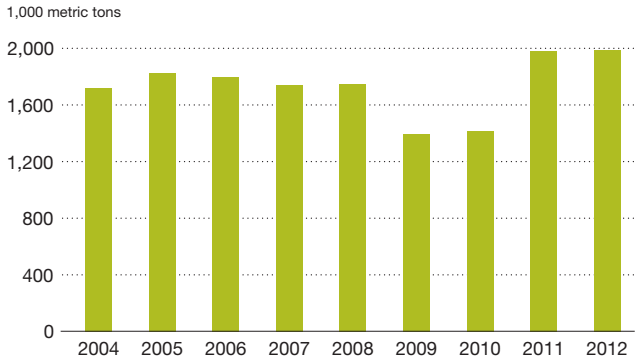
Our Business

Geographical distribution of operating revenues

NOK million 64,181



Primary aluminium production



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 and one of the most cost effective alumina refineries, 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 2012, we delivered about 3 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 building, packaging, lithographic, 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 planned joint venture Sapa, we aim to transform our extrusion operations.

With more than 100 years of experience in hydropower, Hydro is the second-largest power producer in Norway, and the largest privately owned producer. 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 and to grow our aluminium business.

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. See page 60 of this report for more information about The Hydro Way.

Employees

Hydro's organization is made up of about 23,000 employees in 40 countries. These employees represent great diversity, in terms of education, experience, 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. See page 80 for more information about our organization.

Key Developments

Aluminium market price stabilizes

LME 3-month in USD/metric tons

Source: Ecowin

Estimated primary aluminium cash cost

Underlying EBIT declined substantially to NOK 1,158 million in 2012 compared with NOK 5,982 million in 2011 heavily impacted by low aluminium and alumina prices. Bauxite production reached record levels due to improved operational stability. Qatalum delivered a strong production performance and operating costs within the first quartile on the industry cost curve.

In 2012, Hydro strengthened its ambitious repositioning drive with improvement programs across the value chain. New and existing initiatives delivered significant cost reductions partly offsetting weak market developments and high costs for key raw materials. Following five years of major repositioning initiatives, the construction of Qatalum and the acquisition of Vale Aluminium, Hydro announced a major joint venture agreement, Sapa, aimed at transforming its extrusion operations. The transaction is expected to improve the global reach of the combined operations and generate annual synergies of roughly NOK 1 billion.

Hydro decided to close production at its Kurri Kurri plant in Australia due to the weak economic environment, low metal prices together with the strong Australian dollar. Higher cost remelting at smelter casthouses has been significantly reduced. Substantial curtailments, closures and divestments have been executed within downstream extrusion operations.

Hydro reached its most important target of no fatal accidents in 2012. In March, 2013 a fatal accident occurred involving an external contractor. Total recordable injuries per million hours worked (TRI rate) declined from 3.8 in 2011 to 3.4 in 2012, although the target for 2012 was not reached.

Strategic Direction

The current economic environment represents a significant challenge in obtaining a satisfactory return on capital for the aluminium industry. However, Hydro is well positioned for growth as the global economy evolves. A favorable industry position, captive sources of key raw materials combined with financial strength and flexibility place Hydro in a strong position within an industry with solid long-term fundamentals.

Relentless focus on reducing cost and improving operations will continue. A new improvement program for Bauxite & Alumina, "from B to A", is targeting savings and improvements of NOK 1 billion. The final phase of Primary Metal's "USD 300 program" will be completed in the coming year together with targeted improvements within part-owned smelter operations. Ongoing execution of its expanded improvement program, "Mission 1000", will strengthen Hydro's Extruded Products operations for the planned Sapa joint venture. Securing increasing returns for Rolled Products continues to be a key priority under the segment's "Climb 10" improvement program. A key priority for our Energy business will be enhancing the value of our power production assets and securing competitive energy sources for Hydro's global activities.

Safe operations continues to be of paramount importance including zero tolerance for fatal accidents. Hydro is targeting further improvement of its TRI rate for 2013 based on leadership, employee involvement and defined risk mitigating activities.

Our goal is to create a winner in the aluminium industry

Four years with crises great and small, economic stagnation in many markets, and at best slow growth rates have been especially demanding for the aluminium industry. Overproduction and large inventories have weighed on aluminium prices, and many of the world's aluminium plants are losing money at today's prices levels.

But for Hydro these have not been "lost" years. We have used these four years wisely. Our response has not been to wait for a favorable tailwind, but strengthen our skills so we can sail in all kinds of weather. We are seeing through substantial improvement programs in all of our business areas and have taken important strategic actions that will make us more robust regardless of what the future brings – and will make us the aluminium industry's winner when demand catches up to production.

Good at operations and industry shaping

In recent years we have reached three milestones of special strategic importance that illustrate that we are capable of strengthening the company and positioning us for the future, even in times of challenging markets.

Qatalum, our joint-venture with Qatar Petroleum, built with Hydro technology, is essential in strengthening Hydro's cost position and helps make us more robust in times like these. The plant has achieved annual production of 600,000 metric tons, already past its design capacity, and it is operating in the first quartile among the world's aluminium producers.

Hydro's ownership in the world's largest alumina refinery, Alunorte, and the bauxite mine Paragominas, in Brazil since 2011 is our key to membership among the global aluminium industry elite by securing us raw materials for the foreseeable future. This, combined with the improvement program "From B to A" and our strategy of tying prices for alumina more to the fundamental conditions in the industry instead of the aluminium price, places us in a good position for the journey forward.

The agreement to join Hydro's extrusion activities with Sapa will give us 50 percent ownership in the new world leader in aluminium solutions, with new, exciting production, increased research and development competence and a greater presence in North America and global growth markets. Value-added activities are and will continue to be increasingly important for Hydro. Value-added activities expand the market for our primary metal, and this play between metal production and product development shows that we can realize market advantages from our leading competence in alloy technology, among other things, that give our metal qualities that our competitors can't match.

Improvements – not only because we must, but because we can

Just as essential as larger structural actions is our constant focus on continuous improvements throughout our operations in Hydro. It is the sum of all of the incremental improvements in our daily work by individual employees – on the shop floor as well as by our leaders – that have strengthened our ability to face weak markets and prices, and which will give us the strength to create or grasp interesting opportunities when they occur, whether new investments or industry consolidation.

Our goal to reduce the production cost per metric ton of primary aluminium by $300 from 2010 to 2013 – considered the most ambitious improvement program in the entire industry, and one that we are about to reach – has contributed to making our wholly owned aluminium plants more robust against weak aluminium prices. Just as important is that our list of actions is not exhausted, as new ideas are always leading to lower costs and operational excellence. There is good reason to praise our researchers that have implemented new ideas directly into our electrolysis process, and operators who have contributed new procedures and thereby improve other plants' performance through sharing best-practice. The most important lesson I draw from these improvement programs is that there is an amazing potential for making things better "from the ground up." It is also amazing how our production facilities, whether they are 10 years old or 40, perform better and safer today than when they were new. Our next goal is to transfer the methodology of the "$300 Program" to plants where we are part-owners in cooperation with our partners.

Cost level is critical in an industry where prices are established in a global market. But lower costs alone are not a sufficient competitive advantage. Our improvement ambitions reach much farther than cost level. Just as important are the culture and motivation behind the improvement programs: We aren't making improvements because we must, but because we can.

More for less

By being aware of what we're good at, and use our capabilities within the framework of our values, as they are formulated in The Hydro Way, our goal is to:

- Create and add value from natural resources
- Optimize operations
- Promote viability of our company and the communities in which we operate
- Exploit commercial opportunities and exceed customer expectations

Our HAL4e research electrolysis cells in Årdal, Norway, now operate at 12.5kWh/kg aluminium (the global industry average is 14 kWh/kg). We're awaiting results from our newest electrolysis technology, HALsee (super-efficient electrolysis), which is expected to perform at less than 12 kWh/kg, a new step toward our goal of 10kWh/kg. When these improvements can be implemented, they will have direct economic and climate benefits, and illustrate both the business idea and social responsibility that lies behind our research and technological development.

We reached our most important goal in 2012: No fatalities. Unfortunately, that is not the case for 2013. A contractor employee working at Hydro's extrusion plant in France died following an accident in early March. Safe operations continues to be the most important factor for us, and the ambition of zero fatal accidents remains our most important goal.

Finance, health and safety, social responsibility, climate and the environment benefit from the intense focus on continuous improvement in operations. There are no conditions attached to our statement that our employees' safety has the highest priority, for we see no conflict between that and profitability. On the contrary, I am convinced that we can only succeed financially if we take care of the small and not-so-small details that add up to optimal operations – including good housekeeping in production areas, close cooperation between employees and leaders, good procedures and conscientious safeguarding of our own and our colleagues' safety.

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 2012.

The metal of the future

Weakness and uncertainty in the world economy weighs on the aluminium price. When I express my belief in the future of aluminium, it's because the underlying factors point to continued solid growth in demand for aluminium.

Increasing urbanization, new application areas and replacement of other metals has made aluminium the world's fastest-growing metal in the last decade. Because aluminium is light, strong, formable and endlessly recyclable, it can contribute to concrete, practical solutions to the world's challenges in energy consumption and climate change in areas such as transport, building and construction, and packaging.

There is at least one extenuating circumstance with today's low aluminium prices – that our light and very flexible will be even more attractive in relation to other metals that have become more expensive.

There is continued uncertainty when the global economy will give us wind in our sails again. But whether we meet continued demanding challenges or new, exciting opportunities in 2013, either – or both – will demand the best from us.

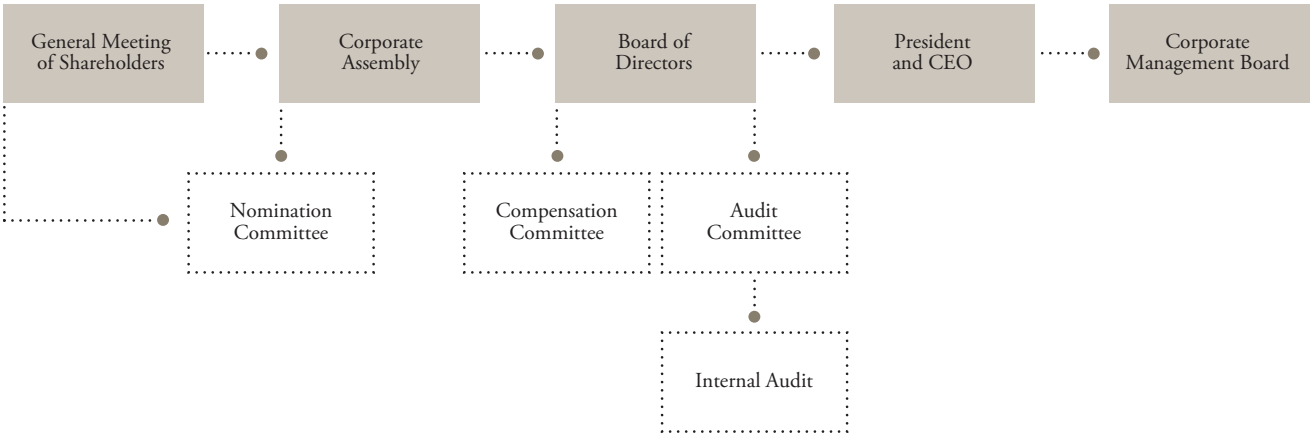
"We aren't making improvements because we must, but because we can."

Svein Richard Brandtzæg
President & CEO

Board and Management

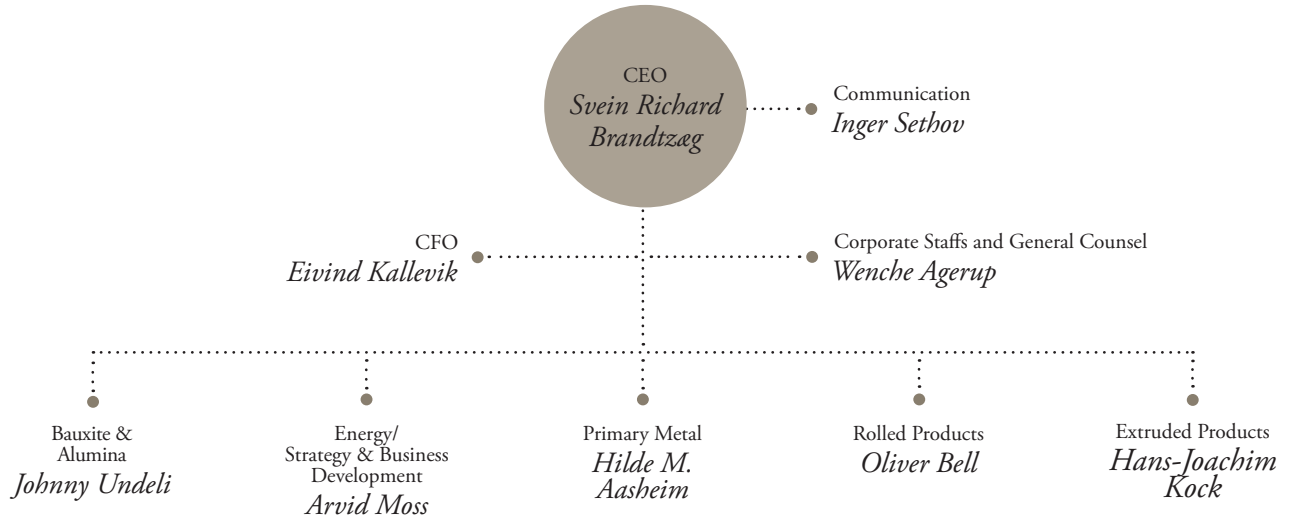
Board of Directors

From left to right: Eva Persson, Billy Fredagsvik, Ove Ellefsen, Inge K. Hansen, Sten Roar Martinsen, Terje Vareberg, Finn Jebsen, Victoire de Margerie, Liv Monica Bargem Stubholt, Dag Mejdell, Pedro José Rodrigues



Corporate Management Board

From left to right: Hilde Merete Aasheim, Arvid Moss, Svein Richard Brandtzæg, Oliver Bell, Hans-Joachim Kock, Eivind Kallevik, Johnny Undeli, Wenche Agerup



Board of Directors' report

(Taken from "Financial statements and Board of Directors' report - 2012")

Key developments and strategic direction

Well positioned in an industry with attractive long term potential

In 2012, Hydro strengthened its ambitious repositioning drive with improvement programs across the value chain. New and existing initiatives delivered significant cost reductions partly offsetting weak market developments and high costs for key raw materials.

Following five years of major repositioning initiatives, the construction of Qatalum and the acquisition of Vale Aluminium, Hydro announced a major joint venture agreement, Sapa, aimed at transforming its extrusion operations. The transaction is expected to improve the global reach of the combined operations, create a stronger foothold in North America and several important emerging markets and generate annual synergies of roughly NOK 1 billion.

A favorable industry position, captive sources of key raw materials combined with financial strength and flexibility place Hydro in a strong position within an industry with solid long-term fundamentals.

Responding to challenging market conditions

Weak global economic conditions have contributed to low and volatile aluminium prices. Economic developments for Hydro's core European markets in particular have resulted in weaker downstream demand. Developments in North America are gradually improving but uncertain.

Relentless focus on reducing cost and improving operations have generated substantial savings partly offsetting the negative market effects. Savings and improvement programs have been established for all business areas including substantial new initiatives for Bauxite & Alumina. Extruded Products generated cost savings close to EUR 60 million for 2012. Primary Metal's improvement program contributed more than NOK 1 billion to underlying results in real terms compared to 2009. In February, 2013, Hydro announced a new improvement program targeting savings for its corporate center in Oslo.

Hydro decided to close production at its Kurri Kurri plant in Australia due to the weak economic environment, low metal prices together with the strong Australian dollar. Higher cost remelting at smelter casthouses has been significantly reduced. Substantial curtailments, closures and divestments have been executed within downstream extrusion operations.

Underlying operating performance

Underlying EBIT declined significantly to NOK 1,158 million in 2012 compared with NOK 5,982 million in 2011.[1)] Underlying net income fell to NOK 504 million from NOK 3,947 million in the previous year. Low aluminium and alumina prices had a significant effect on underlying results for the year.

Bauxite production reached record levels for the year due to improved operational stability. However, underlying results for Bauxite & Alumina declined, heavily influenced by low LME-linked alumina prices and increased energy costs. Low realized aluminium prices impacted underlying EBIT for Primary Metal. However, operating costs declined, influenced by lower LME-linked alumina prices and cost improvement initiatives. During the year, Qatalum delivered a strong production performance and operating costs within the first quartile on the industry cost curve.

Excluding inventory and currency effects, underlying EBIT for Metal Markets decreased somewhat mainly due to lower sales volumes. Rolled Products underlying results declined somewhat but remained solid despite weak market developments and slightly lower shipments. Underlying EBIT for Energy decreased compared to 2011 due to significantly lower prices.

Pro forma underlying operating results for Extruded Products were heavily influenced by weakening markets. Costs declined due to significant improvement efforts.

Hydro reached its most important target in 2012 - no fatal accidents. The company will not reach its most important target in 2013. A contractor employee lost his life following an accident in an extrusion plant in France. Total recordable injuries per

million hours worked (TRI rate) declined from 3.8 in 2011 to 3.4 in 2012, although the target for 2012 was not reached. Hydro's key high risk incidents indicator also improved for the year. Further improvements relating to the reforestation program in Paragominas emphasizing biodiversity protection were initiated.

Hydro's Code of Conduct, which is approved by the board of directors, was thoroughly revised in 2012. The Danish Institute of Human Rights supported Hydro in completing a human rights risk mapping and gap analysis. Most gaps were closed in 2012, and during 2013 we aim at closing remaining gaps.

Priorities for 2013

As a resource rich, global aluminium company, Hydro is aiming to become the benchmark in the industry. Securing the performance of the company's continuing operations while completing the transformation of its extrusion business will be key priorities in the coming year including:

- Further improve our performance within health, safety, security and environment (HSE) and corporate social responsibility (CSR)
- Deliver on targeted cost reduction and improvement programs
- Continue responding to market developments to improve operating results
- Achieve successful completion of the Sapa joint venture
- Maintain capital discipline

Safe operations continue to be of paramount importance, and the ambition of no fatal accidents remains Hydro's top priority. Hydro is targeting further improvement of its TRI rate for 2013 based on leadership, employee involvement and defined risk mitigating activities. The biodiversity and reforestation program in Paragominas will be further developed and strengthened.

Within the CSR area, employee training in the revised Code of Conduct and the development of grievance mechanisms for our activities in Barcarena, Brazil will be prioritized. Implementation of Hydro's people strategy will continue in 2013 with an emphasis on revitalizing the company's leadership development and appraisal dialog system, and initiating the implementation of a company-wide diversity awareness program.

Delivering significant cost reductions for Bauxite & Alumina will be a main goal in the coming year. A new improvement program, "from B to A", 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. Approximately half of the total annual targeted savings and improvements of NOK 1 billion is expected to be achieved by the end of 2013 with completion planned for 2015.[2)]

Continuous improvement of smelter efficiency while constantly addressing cost challenges is a key strategic focus for Primary Metal. Hydro's "USD 300 program" generated accumulated savings and improvements of USD 235 per mt compared to 2009. Completing the final phase of the program will be a top priority in the coming year. Working with joint venture partners, Hydro is also targeting improvements within part-owned operations. In particular, the company will focus on operational improvements at Albras together with further streamlining of production and cost optimization at Qatalum.

Execution of Extruded Products expanded improvement program, "Mission 1000", targeting increased cost reductions and operational improvements will be a key priority to strengthen Hydro's Extruded Products operations for the planned Sapa joint venture.

Securing increasing returns for Rolled Products continues to be a key priority under the segment's "Climb 10" improvement program. Measures aimed at reducing operating costs and the cost-effective procurement of materials and supplies will continue in the coming year together with efforts to further increase the efficiency of production systems.

Hydro aims to provide its shareholders competitive returns compared to alternative investments in peer companies, and is maintaining its dividend policy of paying 30 percent of net income in ordinary dividends over the business cycle. The company will continue to focus on securing its financial position through exercising capital discipline to ensure an optimal level of operating capital, and to maintain a sustainable level of capital expenditures safeguarding the company's operating portfolio. Strong cash generation and preserving Hydro's investment grade credit rating continue to be key priorities.

Shaping the future

The current economic environment represents 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 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 low-cost 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.

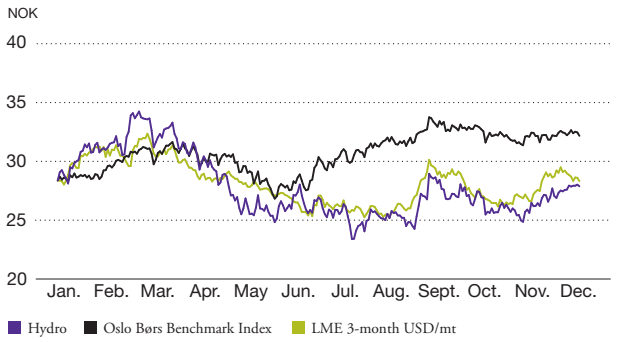
Hydro intends to develop the value of its Norwegian energy assets and to use Hydro's competence to secure competitive energy sources for its global activities. Hydro is committed to maintaining the viability of the company's global smelter portfolio, which is heavily dependent on securing adequate supplies of competitively priced energy. Identifying opportunities for long-term, competitive energy sources to protect and develop the company's portfolio, taking into consideration license reversion in Norway and emission legislation in general, continues to be an important priority for Hydro.

1) Underlying EBIT for both periods excludes the operating results for Extruded Products which has been reclassified as Income (loss) from discontinued operations. However, we are providing supplemental pro forma information on developments in underlying EBIT for Extruded Products on the basis of continuing operations consistent with reporting periods prior to the announced Sapa joint venture.

2) Savings and improvements compared to 2011 cost levels will be determined excluding the effects of changes in currency exchange rates, LME price developments and price developments for key raw materials.

Investor information

Share price development in 2012



Hydro's share price closed at NOK 27.88 at the end of 2012.

Hydro's board of directors proposes to pay a dividend of NOK 0.75 per share for 2012 reflecting the company's strong commitment to providing a cash return to its shareholders and a strong financial position.

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 2012**	Year 2011
Revenue	**64 181**	71 500
Earnings before financial items and tax (EBIT)	**432**	10 068
Items excluded from underlying EBIT [1]	**725**	(4 086)
Underlying EBIT	**1 158**	5 982
Underlying EBIT :		
Bauxite & Alumina	**(791)**	887
Primary Metal	**314**	2 486
Metal Markets	**208**	441
Rolled Products	**640**	673
Energy	**1 459**	1 883
Other and eliminations	**(672)**	(389)
Underlying EBIT	**1 158**	5 982
Underlying EBITDA	**5 687**	10 497
Underlying income (loss) from continuing operations	**509**	3 947
Underlying income (loss) from discontinued operations	**(5)**	(1)
Underlying net income (loss)	**504**	3 947
Underlying earnings per share [2]	**0.26**	1.89
Net income (loss)	**(1 246)**	6 749
Earnings per share [2]	**(0.61)**	3.41
Financial data:		
Investments [3]	**3 382**	47 510
Adjusted net interest-bearing debt excluding equity accounted investments (EAI) [4]	**(8 269)**	(12 507)

Key Operational information [5]

	Year 2012	Year 2011	% change prior year
Alumina production (kmt)	**5 792**	5 827	(1) %
Bauxite production (kmt)	**9 221**	8 151	13 %
Primary aluminium production (kmt)	**1 985**	1 982	-
Realized aluminium price LME (USD/mt) [6]	**2 080**	2 480	(16) %
Realized aluminium price LME (NOK/mt) [6]	**12 047**	13 884	(13) %
Realized NOK/USD exchange rate	**5.79**	5.60	3 %
Metal products sales, total Hydro (kmt) [7]	**3 254**	3 303	(1) %
Rolled Products sales volumes to external market (kmt)	**909**	929	(2) %
Power production (GWh)	**10 307**	9 582	8 %

1) See section "Items excluded from underlying EBIT and net income" in Hydro's Annual report for 2012 for more information on these items.

2) 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.

3) Investments exclude amounts relating to Extruded Products for all periods presented. Investments include amounts relating to the acquisition of Vale Aluminium amounting to NOK 43,376 million for the full year 2011.

4) See note 35 Capital Management in Hydro's Financial statements - 2012 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. The corresponding amount for 2011 is presented on the same basis as 2012.

5) Amounts include Hydro's proportionate share of production and prices in equity accounted investments. Alumina and bauxite volumes include acquired Vale aluminium assets for full year in 2011.

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

7) Sales from casthouses (incl. Neuss), remelters and third party sources.

Underlying results for Bauxite & Alumina declined compared with 2011, mainly due to lower LME-linked alumina prices and higher energy costs. Bauxite production improved throughout the year reaching record volumes for the year as a whole. Alumina production at Alunorte declined slightly. Fuel costs increased for Alunorte due to charges for ICMS value-added taxes in the state of Pará in Brazil for the period from March through September.

Lower realized aluminium prices had a substantial negative impact on underlying EBIT for Primary Metal, partly offset by lower raw material costs. Fixed costs declined further compared to the previous year and were also impacted by the closure of the Kurri Kurri plant in Australia. Higher volumes following the completion of the ramp-up of Qatalum in 2011 had a positive impact on underlying results. However, this was more than offset by lower realized aluminium prices, together with costs relating to a fire in the power plant cooling tower.

Metal Markets underlying EBIT declined in 2012, impacted by significant negative currency and inventory valuation effects compared to the previous year. Excluding these effects, underlying EBIT decreased somewhat mainly due to lower sales volumes from remelters and high purity products.

Underlying EBIT for Rolled Products declined somewhat in 2012 compared to the previous year. Margins improved, impacted by positive currency effects on export sales[8]. This had a significant positive impact on underlying results but was offset by lower sales volumes and higher costs. Operating margins excluding currency effects declined slightly.

Underlying EBIT for Energy decreased in 2012, mainly due to significantly lower prices partly offset by higher production.

Pro forma underlying EBIT for Extruded Products declined compared to 2011, heavily impacted by the weakening European markets. Lower costs resulting from the significant improvement efforts undertaken throughout the year partly offset the negative market effects. Weak demand in Europe is expected to continue in the first quarter of 2013. Efforts to reduce costs and improve operating results will continue.

8) 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. Offsetting gains and losses on internal hedges are reported as financial items.

Reported results

Reported earnings before financial items and tax amounted to NOK 432 million in 2012 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 production at Kurri Kurri.

In the previous year, reported EBIT amounted to NOK 10,068 million including revaluation and divestment gains of NOK 5,512 million and impairment and rationalization charges of NOK 1,244 million mainly relating to Kurri Kurri. Reported EBIT also included other items of NOK 182 million mainly relating to unrealized derivative losses.

In 2012, Hydro incurred a loss from continuing operations of NOK 718 million including a net foreign exchange loss of NOK 280 million. In the previous year, income from continuing operations amounted to NOK 7,251 million including net foreign exchange losses of NOK 963 million. The net currency loss in 2012 and 2011 related mainly to debt denominated in US dollars.

Net financial expense amounted to NOK 348 million in 2012 compared to NOK 1,248 million in the previous year.

Income taxes amounted to a charge of NOK 803 million in 2012, compared with a charge of NOK 1,569 million in 2011. Adjusted for losses from equity accounted investments, impairment charges and other losses without tax benefits, the tax rate

was about 38 percent for 2012. The adjusted tax rate reflects the relatively high share of earnings subject to Norwegian power surtax. For 2011 the adjusted tax rate was about 30 percent. The reported tax rate for 2011 was impacted by significant tax free gains on sales of shares.

Loss from discontinued operations amounted to NOK 528 million in 2012 including impairment and rationalization charges of NOK 372 million and a loss on disposal of Portalex amounting to NOK 144 million. In the prior year, loss from discontinued operations amounted to NOK 502 million, including impairment and rationalization charges of NOK 362 million and about NOK 150 million relating to write-downs of deferred tax assets.

In total, Hydro incurred a net loss of NOK 1,246 million in 2012, compared with net income of NOK 6,749 million in 2011.

Liquidity, financial position, investments

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

In 2012, cash provided from continuing operating activities of NOK 5.4 billion was sufficient to cover investments of NOK 3.4 billion, as well as dividend payments of NOK 1.7 billion. Net loan proceeds amounted to NOK 2.2 billion, including a new NOK 1.5 billion bond loan maturing in 2019. Sales of non-strategic assets of NOK 0.2 billion represented an additional source of cash. Net cash used in discontinued operations amounted to NOK 0.3 billion.

Net interest bearing assets remained unchanged from the previous year amounting to NOK 1.7 billion. Adjusted net interest bearing debt excluding equity accounted investments declined to NOK 8.3 billion in 2012 from NOK 12.5 billion in the previous year.[1)] The reduction resulted from a decline in net pension liabilities, mainly due to discount rate and other changes in the assumptions and lower operating lease commitments. In addition, currency translation effects led to lower foreign currency denominated commitments measured in Norwegian kroner.

Hydro's adjusted net interest bearing debt to adjusted equity ratio was 0.19, well below its targeted maximum ratio of 0.55. Our adjusted funds from operations to adjusted net interest bearing debt ratio was 0.39, close to its targeted minimum of 0.40 over the business cycle.

Investments amounted to NOK 3.4 billion in 2012, compared with NOK 47.5 billion in the previous year. Investments exclude amounts relating to Extruded Products for all periods presented. For 2011, investments included NOK 43.4 billion related to the acquisition of Vale Aluminium.

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 2013.

1) 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. The corresponding amount for 2011 is presented on the same basis as 2012.

Outlook

The global alumina market was balanced at the end of 2012 influenced by supply disruptions, mainly in India. Chinese alumina imports for 2012 amounted to 5 million mt, up from 1.9 million mt in 2011, driven by favorable price differentials and limited bauxite availability. Bauxite and alumina prices have been strongly influenced by developments in China, which is heavily dependent on imported bauxite. During the year, the price of imported bauxite in China rose more than ten percent, the highest level since 2008. The increase resulted from temporary restrictions and export tax on Indonesian exports. As a result of the future uncertainty regarding the availability of bauxite from Indonesia, China is facing supply challenges in the Pacific region and substantially higher freight costs for bauxite sourced from the Atlantic region.

Global demand for primary aluminium excluding China increased moderately compared to 2011. Corresponding production decreased, mainly due to closures and substantial production disruptions. As a result, the market was relatively balanced in 2012. Annualized production increased in the final quarter of 2012, amounting to 25.6 million mt. Annualized consumption declined, however, amounting to 25.1 million mt. New greenfield projects are expected to come on stream during 2013. Demand for primary aluminium is expected to grow by about 2-4 percent in 2013.

Demand for extrusion ingot and foundry alloys in Europe weakened during 2012 and is expected to remain soft into 2013. Consumption of sheet ingot was stable compared to 2011. No significant increase in consumption is expected in 2013. The market for wire rod exhibited a solid increase during 2012 and is expected to continue with a positive development into 2013. In the U.S. and Asia, demand for extrusion ingot and foundry alloys has been positive during 2012 and is expected to remain so in 2013.

The European market for flat rolled products declined compared to the previous year. Most of the decline occurred in the first half of 2012 due to strong demand and restocking activities in the first half of 2011. Demand in the second half of 2012 remained around the same soft level experienced in the corresponding period of 2011.

European demand for extruded aluminium products declined for all market segments compared to 2011 and in Southern Europe in particular. Compared to 2011, demand in North America grew substantially with most of the increase supplied by domestic extruders. South American extrusion demand weakened somewhat compared to 2011. Weak demand is expected to continue in Europe in the first quarter of 2013, while the outlook for markets outside Europe is more positive.

Power production in Norway amounted to 146 TWh in 2012, which is 20 TWh higher than in 2011. Hydro's water reservoirs and snow levels were close to normal at the end of 2012. Production is expected to be seasonally high through the first quarter of 2013.

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 primary aluminium plants are located in countries experiencing strong currencies and/or inflationary pressures, which weaken the competitive position of some of our operations. Compensating for future market declines is dependent on the company's ability to sufficiently reduce our operating costs. Hydro may not realize the benefits expected from the planned Sapa joint venture. The Vale Aluminium acquisition represents a significant portion of Hydro's capital employed and the company 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 on reducing CO_2 emissions. 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.

Controls and procedures

Hydro follows the Norwegian Code of Practice for Corporate Governance of October 2012. A detailed description of Hydro's compliance with this code is presented on page 148. Information regarding the company's shareholder policy can be found on page 131.

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 2012, research and development costs recognized as an expense amounted to NOK 247 million compared to NOK 248 million in 2011. In addition, corresponding costs for Extruded Products, which is reported as discontinued operations in Hydro's financial statements, amounted to NOK 191 million, down from NOK 260 million in 2011.

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, Bonn in Germany (Rolled Products) and Toulouse in France (Building Systems).

In Hydro, research and development are going 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. That's why we are working to maintain progress, unaffected by the fluctuations of the business cycle. 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.

Starting in 2012, all business areas are responsible for their own technology development and execution of their respective technology strategies. As part of the new organizational model, a corporate technology office was established to 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 reducing 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 and have ambitions to improve further by implementing new dry disposal technology.

The primary aluminium plants in Sunndal, Norway and Qatalum, Qatar are using Hydro's proprietary electrolytic process technology. Our next generation technology, HAL4e, has been thoroughly tested in six full-scale production cells. We are now developing this technology further. HALsee (HAL super-efficient energy) is targeting a maximum of 12 kWh/kg aluminium produced. The R&D in Primary Metal is also key in strengthening competitiveness by helping improve the cost position at our primary plants. Prioritized tasks are operational support, implementation of new technology in existing activities as well as development of next-generation electrolysis technology.

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.

Work environment

We achieved our most important target in 2012, no fatal accidents. We will not achieve our most important target in 2013. A contractor employee lost his life following an accident at Hydro's extrusion plant in Lucé, France. Safe operations continue to be of paramount importance, and our ambition of no fatal accidents remains our top priority. Our TRI rate (total recordable injuries per million hours worked) was 3.4 in 2012, down from 3.8 in 2011, but we did not achieve our target of 2.85. The target is unchanged for 2013. We work continuously to avoid work-related illnesses and injuries, and track the development through a corporate reporting tool. Guidelines for assessing risks in the work environment are used by the business areas to help map and evaluate Hydro's work environment.

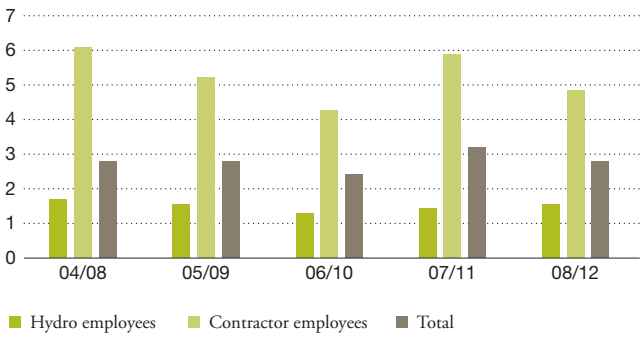
Registered sick leave in Hydro was 3.2 percent in 2012, up from 3.1 percent in 2011. Legal systems and compensation regarding sick leave vary from country to country. This impacts reporting and makes comparison between countries difficult, even though we introduced common reporting definitions in 2012. 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 4.6 percent in 2012, up from 4.4 percent in the previous year. Men's sick leave was 4.4 percent, up from the 2011 level of 4.1 percent, while women's sick leave was 5.7 percent in 2012, the same as in 2011.

We have initiated several measures to improve performance. Designing the interface between the employee and technical equipment is important to avoid dangerous situations and accidents. Our Extruded Products business area only, has spent Euro 15 million on this during the last five years and plan to continue the work. In addition comes similar activities in the Primary Metal and Rolled Products business areas.

Implementation of a common, company-wide high-risk incident investigation and communication tool, was started in 2012.

Fatal accidents

Per 100 million hours worked, five-year rolling average



Total recordable injuries

Per million hours worked

Environment

We have monitored our impact on the environment for several decades as part of a holistic approach to value creation. 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_2 emissions through the use of our products
- Increasing the recycling of aluminium

The greenhouse gas emissions from Hydro's current consolidated activities decreased by 2 percent in 2012. The total emissions from our ownership equity - including indirect emissions from electricity generation - decreased by 11 percent. Mainly due to closure of the production at the Kurri Kurri smelter in Australia during 2012, our indirect emissions decreased by 20 percent. These emissions will decrease even further in 2013 as the production at the Kurri Kurri smelter is now completely shut down. The restart of primary aluminium capacity in Neuss, Germany early in 2013, will to some degree counteract this effect.

Specific direct emissions increased slightly from 1.61 metric tons (mt) CO_2 equivalents (CO2e) per mt primary aluminium in 2011 to 1.62 in 2012 following setbacks at Albras and Slovalco. Our long-term target of 1.52 mt CO2e per mt aluminium in 2013 will not be reached. Specific emissions in 2009, when the target was set, were 1.85 mt CO2e per mt aluminium. The 2013 target has been adjusted to 1.58 mt CO2e per mt aluminium, and we will in 2013 develop a new long-term target.

Our ambition is to grow faster than the market in recycling and to take a strong position in this part of the value chain. We have improved utilization of our existing capacity during the last two years, and recycled in 2012 almost 280,000 mt aluminium. Due to curtailments in remelting and recycling capacity, and divestments of two remelters, growth was only about 3 percent compared to 2011. We achieved our goal for 2012 to stabilize at above 90 percent capacity utilization in our recycling facilities. This goal is retained for 2013, due to the uncertain market conditions. We are also targeting to develop specific post-consumed scrap projects for investment in additional capacity. Following the Sapa transaction, we will in 2013 revise our long-term recycling ambitions to reflect the new portfolio.

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

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

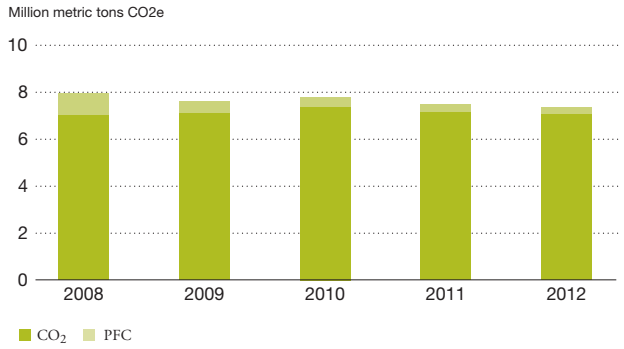
Hydro's bauxite mining involves removing topsoil and overburden by machinery to extract the bauxite deposits below. When bauxite extraction is finished in an area, rehabilitation starts. The reforestation program started in 2009 and will continue beyond 2040 in the present area. In 2012, we entered into cooperation with two other bauxite mines in Pará to share reforestation best practice. In total 609 hectares of land, including deforested areas, were affected during 2012 compared to 853 hectares in 2011. Almost 5,300 hectares have been affected since the start of the mining operations in 2006 of which 776 hectares have been reforested. In 2012 we reforested 444 hectares compared to 128 hectares in 2011. Within 2017, our ambition is to achieve an area balance of 1:1 in opening of mine compared to reforestation and to close the reforestation gap within 2020.

Enough and clean water is a challenge in some of the areas where Hydro operates. Local initiatives show that with simple measures, substantial water savings are achievable. Systematic mapping of our water situation in 2012 showed that in total, about 3 percent of our water input came from water-stressed areas when regarding annual renewable water supply. The water stressed areas where we have consolidated activities are mainly located in Germany and Southern Europe, where water supply is well regulated.

Although the Amazon is recognized for its abundance of water, we have observed over the last decades that parts of the area have had repeated periods of unusually low or high rainfall. In 2012 we initiated a study to evaluate the water balance of Alunorte and the planned CAP alumina refinery following an expansion of the Paragominas mine and construction of CAP. Today, Alunorte gets an important part of its water through the bauxite slurry that is transported from Paragominas through a pipeline.

With the new 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 directly 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 2012, Hydro generated 4.2 million mt of tailings.

Direct greenhouse gas emissions from Hydro's consolidated activities



Bauxite residue is a by-product of the alumina refining process. Alunorte uses the Bayer process, which includes use of caustic soda. The lye is recovered and reused in the process as part of a closed-loop system to reduce production costs and lower the alkalinity of the residue. In total, 6.1 million mt (containing 35 percent humidity) bauxite residue was disposed in 2012.

Spent potlining (SPL) from the electrolytic cells used in primary aluminium production is defined as hazardous waste. In 2012, Hydro produced 25,941 mt of SPL, a 5 percent increase from 2011, but a 26 percent decrease since 2010. Production of SPL varies with the relining of smelter cells which is normally done every 4-7 years for established smelters. We expect an increase in the SPL production from consolidated smelters next year. A project to find environmentally sound and commercially viable alternatives to landfilling of SPL led to two new delivery contracts in 2012. In both cases the carbon material from Hydro will be used as a fuel in the production process, while high temperature incineration ensures destruction of hazardous components. These agreements are examples of efficient resource use that is sound for the environment by substituting fuel or raw materials and also saving landfill costs.

Emergency preparedness

We are responsible for infrastructure and functions which could be critical for community operations, locally and/or regionally, and we operate large-scale production sites where a crisis could influence community interests and safety in general. Hence we are subject to control and follow-up by the respective national authorities. These potentially high-risk incidents are core to our emergency planning and we keep a high state of preparedness, being trained and monitored through regular exercises. A central emergency team supports line management and ensures crisis handling in accordance with Hydro's requirements and expectations.

A threat and vulnerability assessment forms the basis for preventive measures in all business areas. Security guards are employed on a regular basis to protect our personnel and assets. No armed guards were engaged in 2012, and there were no significant incidents reported in connection with our use of security guards in 2012.

Integrity and human rights

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 thoroughly revised in 2012. The AlertLine, replacing Hydro's former whistleblower channel, was launched in August 2012. Employees may report breaches or perceived breaches of Hydro's requirements through the channel. The AlertLine is served by an external company and all permanent and temporary employees can report their concerns at any time and in their own language through toll-free phone numbers, Hydro's intranet or the Internet.

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. In countries where the right to form trade unions is restricted, we try to find alternative forums for employee engagement to uphold the right of employees to influence their work situation, like in Qatar and China.

In 2012, Hydro spent NOK 39 million on community investments, charitable donations and sponsorships, of which more than half was related to community investments.

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.

In 2012 the Danish Institute of Human Rights supported Hydro in completing a human rights risk mapping and gap analysis of our worldwide activities. Identified gaps were related to e.g. lack of human rights due diligence being part of Hydro's formal governance system, lack of formal, company-wide grievance mechanisms open to all stakeholders and addressing issues on unionizing and collective bargaining in countries where free trade unions are not permitted. Most gaps were closed during 2012. In 2013 we aim at developing a pilot grievance mechanism for our activities in Barcarena, Brazil (Albras, Alunorte and the alumina refinery project CAP).

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 use the Global Reporting Initiative (GRI) G3 Guidelines for voluntary reporting of sustainable development. See www.hydro.com/gri

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

NOK million	**2012**	2011	2010	2009	2008
Australia	**-**	-	-	(0.7)	0.4
Brazil	**80**	48	98	160	139

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 2012, but not in the financial audit.

Employees

Hydro had 21,566 permanent employees at the end of 2012, a decrease from 22,813 in 2011. In addition, we had 1,161 temporary employees compared to 1,368 the year before. Contractor employees represented about 8,200 full-time equivalents during 2012, down from 8,900 in 2011. The decrease in employees last year was mainly due to closure of the production at the Kurri Kurri smelter in Australia and other restructuring measures across the company. We have the highest number of employees in Brazil, followed by Germany and Norway. The planned merger between Hydro's Extruded Products and Sapa will directly affect almost 10,000 Hydro employees. The integration planning process has started.

Hydro's people strategy is built on five pillars: our performance culture, competence management, leadership pipeline, diversity, and mobility. In 2013 we will mainly concentrate on revitalizing our leadership development and appraisal dialogue system, and initiating the implementation of a company-wide diversity program (see below).

We see the importance of maintaining our position as an attractive employer. New employees are offered essential training to better understand the organization and their work tasks and to gain the required competence within health, security, safety and environment. By the end of 2012 more than 95 percent of the employees in our Bauxite & Alumina operations in Brazil (acquired 2011) had been through the Hydro Fundamentals program to be introduced to Hydro's values, social responsibility, value chain and HSE requirements.

We emphasize diversity with regard to nationality, culture, gender and educational background when recruiting and when forming management teams and other working groups. While 87 percent of top management are Norwegian or German, only 38 percent of Hydro's employees are the same. Women are represented in the board of directors, the corporate management board and in most business area management teams. We are aiming at further diversity at all levels and launched a diversity awareness program for our global organization in 2012. Implementation will continue in 2013.

In 2012, 15 percent of Hydro's employees globally were women, compared to 14 percent in 2011. Eleven percent of the employees in Brazil and Germany are women, compared with 19 percent in Norway, 18 percent in the U.S., 16 percent in France and 8 percent in Italy. These countries are the ones where Hydro has most employees. Almost 240 new employees were recruited in Norway, Germany, Italy and Slovakia in 2012, of which 23 percent were women. In Norway, we recruited in total

98 employees in 2012, compared to 80 in 2011. Of these, 28 percent were women, compared to 19 percent in 2011. Almost half of the new employees in Norway with a Master's degree were women.

We are continually adjusting working conditions so that all employees have the same opportunities, regardless of disabilities.

Share of non-Norwegian leaders

Share of women leaders

The total share of women at all levels in Hydro was 15 percent in 2012

All employees shall be secured a total salary that is fair, competitive and in accordance with the local industry standard. Only relevant qualifications such as performance, education, experience and other professional criteria shall be taken into account when making appointments, or when providing training, settling remuneration and awarding promotion. There are no significant gender-pay differentials for employees earning collectively-negotiated wages in Norway. Salary conditions in the Norwegian business are reviewed on a regular basis. No significant gender-related differences were found in 2012. If significant differences are found at any level, we have a tradition for closing the gaps within a short time.

The annual bonus of Hydro executives shall reflect achievements in relation to pre-defined financial targets, achievements of operational and organizational key performance indicators (KPIs) including targets relating to safety and environment (HSE) and corporate social responsibility (CSR), and compliance with and the promotion of Hydro's core values (The Hydro Way). See Note 10 and 11 to the consolidated financial statements for more information.

In a challenging macroeconomic landscape, the board of directors would like to give tribute to Hydro's employees for their invaluable will and ability to continuously striving to improve Hydro operations across the world.

Board developments

The board of directors has an annual plan for its work. It includes recurring topics such as strategy review, business planning, risk and compliance oversight, financial reporting, people strategy, succession planning as well as HSE and CSR. The board of directors is closely following the market and macro-economic developments relevant for the aluminium industry. In 2012 the board used significant time on the transaction with Sapa. This included strategic positioning and risk oversight, valuation and agreeing on negotiation mandates. The board of directors visited Hydro's Sunndal plant in Norway to learn more about the operations, the progress of the USD 300 per ton aluminium improvement program in Primary Metal, and to learn more about technology development in Hydro.

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.

The board of directors held 15 meetings in 2012 with an attendance of 92 percent. The compensation committee and the audit committee both held seven meetings.

Dag Mejdell joined the board of directors on May 8, 2012, Pedro Rodrigues on September 21 and Victoire de Margerie on October 1. Tito Botelho Martins Jr. stepped down from the board of directors on 13 August 2012 and Bente Rathe on 30 September. The three new board members went through an introduction program to learn about Hydro, its organization and management systems including HSE and CSR, and the aluminium industry in general.

Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) incurred a net loss of NOK 324 million in 2012 compared with a net income of NOK 2,613 million in 2011.

Hydro's board of directors proposes to pay a dividend of NOK 0.75 per share for 2012, reflecting the company's strong commitment to provide a cash return to its shareholders and a strong financial position.

Unrestricted equity after the proposed dividend payment amounted to NOK 26,103 million at the end of the year.

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 12, 2013

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

01: Business description

QUICK OVERVIEW

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

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

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

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

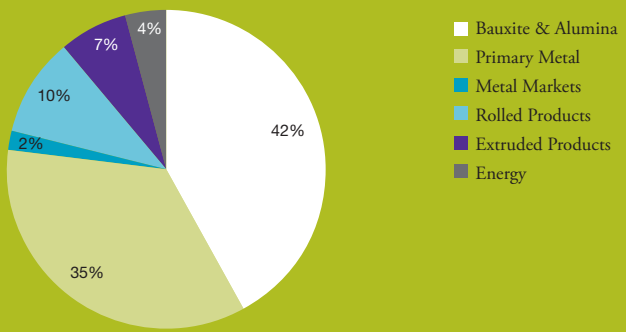
Underlying EBIT 2012

NOK MILLION

1,158

Capital employed – upstream focus

December 31, 2012: 72 097 MNOK



History and development

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

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

An era of diversification

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

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

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

Decades of global expansion

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

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

Throughout this period, we have continued to focus on improving working conditions, and have developed principles and directives underlying our global commitment to a viable society.

Restructuring and concentration

The first decade of the new millennium also encompassed a major restructuring of our downstream operations, the closure of higher cost smelters, and ultimately, the transformation of Hydro into a focused aluminium and energy company. In 2004, we demerged our fertilizer business through the creation of Yara, and we merged Hydro's petroleum activities with Statoil to form StatoilHydro in 2007, now called Statoil. We completed the divestment of our Polymers activities in 2008 and our automotive structures business in 2009.

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

Transforming transactions

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

In October 2012, Hydro announced an agreement with Orkla ASA to combine their respective extrusion profile, building systems and tubing businesses within a new joint venture company owned 50 percent by each party. The new company, to be named Sapa, will include all of Hydro's Extruded Products business activities and will have significant operations in Europe, North America, South America and Asia. Completion of the transaction is expected to take place in the first half of 2013 following approval by the relevant competition authorities. The agreement allows either party to initiate an initial public offering about three years from closing where each partner has the option to retain a 34 percent interest in the company. See note 5 to the consolidated financial statements later in this report for more information on this transaction.

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

Operating segments

Aluminium upstream production facilities

Hydro is a fully integrated aluminium company with attractive positions in alumina and power, two of the most important raw materials in the production of primary metal. We are one of the world's largest producers and suppliers of alumina and primary aluminium. Our captive power position, based on substantial self-generated hydroelectric capacity in Norway and a dedicated gas-fired plant at Qatalum, gives us secure access to energy at competitive prices.

Downstream, Hydro is an industry leader for a range of aluminium products and markets, in particular the building, packaging, lithographic and automotive sectors. Our ambition is to be recognized as the world's foremost aluminium solutions supplier, working in partnership with our customers and driving our business forward.

Hydro's business is divided into six operating segments including Bauxite & Alumina, Primary Metal, Metal Markets, Rolled Products, Extruded Products[1)] and Energy:

- Bauxite and Alumina includes our bauxite mining activities comprised of the Paragominas mine and a 5 percent interest in Mineracao Rio de Norte (MRN), both located in Brazil, as well as our 92 percent interest in the Brazilian alumina refinery, Alunorte. These activities also include Hydro's long-term sourcing arrangements and alumina commercial operations, and its 81 percent interest in the joint venture partnership Companhia de Alumina do Para (CAP), for a new alumina refinery close to Alunorte.
- Primary Metal consists of our primary aluminium production, remelting and casting activities at our wholly-owned smelters located in Norway, Germany and Australia, and Hydro's share of the primary production in partly-owned companies located in Norway, Slovakia, Qatar, Australia, Canada and Brazil.
- Metal Markets includes all sales and distribution activities relating to products from our primary metal plants and operational responsibility for our stand-alone remelters, which are located in most major European markets and the United States. Metal Markets also includes metal sourcing and trading activities, which secures a competitive supply of standard aluminium ingots for our global production system, and provides operational risk management through LME hedging activities.
- Rolled Products consists of rolling mills which are mainly located in Europe and the Rheinwerk primary plant in Germany. Rolled Products also includes our 50 percent interest in the AluNorf rolling mill in Germany.
- Extruded Products consists of our extrusion-based business, located mainly in Europe and the Americas, which is focused on delivering solutions to the building and construction, transportation, and engineered products industries. Extruded Products also includes our aluminium building systems and precision tubing activities.
- Energy is responsible for managing Hydro's captive hydropower production, external power sourcing arrangements to the aluminium business and identifying and developing competitive energy solutions for Hydro worldwide.

1) Following the agreement with Orkla ASA, operating results for Hydro's Extruded Products business are presented net of financial items and tax as Income (loss) from discontinued operations and excluded from consolidated EBIT and underlying EBIT with all prior periods restated. To provide a better understanding of operating results, we are providing supplemental information including pro forma underlying EBIT for Extruded Products calculated on the basis of continuing operations and a discussion of developments on this basis. See Pro forma underlying EBIT - Extruded Products in the section Financial and operating performance later in this report. Business and operating information included in this Business description is presented on the same basis as the previous year.

Business and operating information

The following section includes a description of the industry developments impacting our business, our strategies for developing and exploiting our competitive strengths, key performance targets, including results, and a description of operations for each of our business areas including key revenue and cost drivers.

See section - Financial and operating review - later in this report for comparative production and sales volume information for our different business areas.

Bauxite & Alumina

Industry overview

Bauxite rock is composed mainly of aluminium oxide and aluminium hydroxide containing minerals. There are three main qualities: Gibbsite, Boehmite and Diaspore. The qualities determine the processing requirements, with corresponding influence on operating costs and the eventual quality of the resulting alumina. Gibbsite, the highest quality bauxite, is found mainly in Brazil. Bauxite is typically mined in open pits and either processed into alumina in close proximity to the mining operations or shipped to alumina refineries around the world for processing. Around 80 percent of global alumina refining, excluding China, is based on integrated bauxite sources. In China, about 55 percent of alumina refining is based on integrated sources.

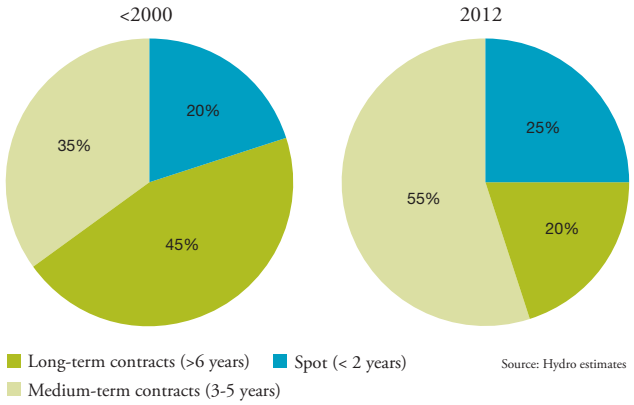
Excluding China, the largest bauxite producing countries are Australia, Indonesia, Brazil and Guinea accounting for 75 percent of available bauxite globally. Within the bauxite mining industry sector, five of the largest mines represented around 35 percent of global production last year, which amounted to about 280 million mt.

Alumina price

% of LME per tonne alumina for long-term contracts

Source: Hydro estimates

Alumina contract durations



Source: Hydro estimates

Alumina is a significant cost element in the production of aluminium. The alumina market is competitive, but relatively few players hold a long position, compared with the primary aluminium market.

Bauxite and alumina price developments

Bauxite and alumina prices have been strongly influenced by developments in China, which is heavily dependent on imported bauxite. In 2012, China imported roughly 40 million mt of bauxite, representing about 40 percent of its raw material requirements. During the year the price of imported bauxite in China rose more than ten percent to USD 53 per mt, the highest level since 2008. The increase resulted from temporary restrictions and export tax on Indonesian exports. In 2012, Indonesian bauxite represented around 70 percent of total Chinese bauxite imports. As a result of the future uncertainty regarding the availability of bauxite from Indonesia, China is facing supply challenges in the Pacific region and substantially higher freight costs for bauxite sourced from the Atlantic region.

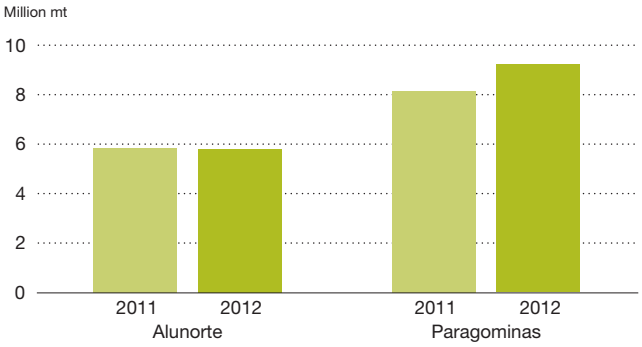
Alumina prices, as a percentage of LME have been increasing. Since 1990, average annual contract prices have risen from a level of around 12 percent of LME reference prices to around 15-17 percent in 2012. The Platts alumina price index has gained further support in the industry and represents the main reference for short and medium term contracts. This trend is expected to continue.

Strategy and targets

Delivering on its ambitious improvement program, "from B to A", will be a key priority for Bauxite & Alumina in the coming year. Focus on operational excellence and safe, sustainable practices to promote responsible, cost-effective and stable operations will be reinforced. Optimizing and enhancing the commercial value of our attractive product portfolio will continue to be at the top of our agenda.

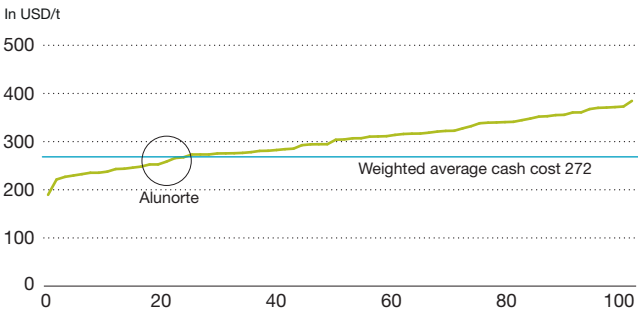
Deliver significant savings and improvements on operating costs
Our main goal in the coming year will be to deliver significant cost reductions. The program encompasses all major operating activities focusing on increased production, higher productivity, lower operating costs, and lower manning as well as procurement activities and commercial operations. Initiatives include improved ore extraction, increased recovery, more efficient pipeline operations, stabilizing key alumina production lines and safeguarding a stable power supply.

Stable Production Performance and Further Improvements



World cash cost curve

Site cost curve 2012



Source: CRU

Reinforce safe and sustainable business practices
Important HSE initiatives for the coming year include competence sharing, increased training and communication and stronger focus on process safety and safeguarding the environment. Key actions for CSR include new and ongoing dialog with all major stakeholders.

Improve the commercial value of our attractive product portfolio
We will continue to focus on optimizing our global bauxite and alumina positions. Measures include sourcing arrangements aimed at reducing logistical costs and improving margins, establishing a premium for our high quality alumina and increasing margins on bauxite sales to external parties. We also intend to increase our exposure to alumina index pricing, a mechanism that, we believe, better reflects the fundamentals of the industry.

Expand our bauxite and alumina capacity
Hydro has attractive positions enabling the potential expansion of low-cost alumina refining in an industry with solid long-term market potential. These include the CAP joint venture for a potential new alumina refinery and possible expansion of the Paragominas mine. These activities are on hold due to the current market uncertainty.

2012 targets

- Continue to stabilize and improve production and operational performance at our sites
- Further HSE improvements with a focus on high-risk incidents

2012 results

- Further stabilization of operational performance achieved with record production levels in Paragominas
- Focus on the prevention of high-risk incidents continued including intensive training and implementation of tools to promote further development of safety culture, however, experienced several serious incidents during the year

2013 targets

- Continue to improve production stability with the ambition to reach nameplate capacity
- Deliver approximately NOK 500 million on "from B to A" improvement program
- Implement CSR stakeholder engagement and action plan
- Further HSE improvements based on continued reinforcement of safety culture

Ambitions going forward
We are strongly committed to safety and to eliminating high-risk incidents in our operations. Going forward, we intend to capitalize on our strong position in bauxite and alumina in a resource constrained world. We intend to secure and grow our

capacity to enhance our position in a profitable bauxite and alumina market. This will increase our attractiveness as a partner in new ventures and our ability to exploit other opportunities which may arise.

Operations

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

Cost and revenue drivers

The main cost drivers for bauxite are labor, maintenance/consumables and energy, representing around 65 percent of the cash cost of mining activities. Labor, the largest cost factor, accounting for about 25 percent, is influenced by Brazilian wage levels and productivity developments. Maintenance/consumables are influenced by inflation and efficiency in operations.

For alumina refining, bauxite and energy represent nearly 70 percent of cash costs. Caustic soda is also important, accounting for about 15 percent of costs. Bauxite purchases from Paragominas, and under long-term contracts from MRN, are based on prices partly linked to the LME and to alumina market prices.

Realized alumina prices, the key revenue driver, represent roughly 13 - 14 percent of LME reference prices for Hydro's combined internal and external sales portfolio. Based on existing contract terms, similar percentages are expected though 2015, with only minor volumes available for sale before 2016. Over time, we expect market mechanisms will likely evolve the price of our core products to better reflect the cost fundamentals of the industry.

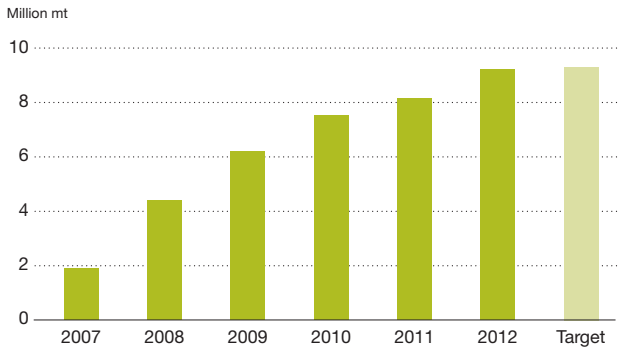
Competitive strengths

- Paragominas, one of the world's largest bauxite mines with a current reserve life of roughly 30 years
- Significant bauxite resources beyond current reserves
- High quality Gibbsite bauxite delivering refining benefits in the form of lower investment and operating costs
- Unique integrated pipeline generating increasing economies with higher production and potential expansions. Low environmental impact
- Alunorte, the world's largest alumina refinery, and one of the most cost effective on an integrated cash cost basis
- High quality, low variability, differentiated alumina
- Favorable long alumina position with market prices trending upwards, shorter contract durations and growing spot market
- Substantial expansion opportunities to 15 million mt of bauxite and 8 million mt of alumina

Bauxite mining

Paragominas is located in the Brazilian state of Pará. The mine has a nominal production capacity amounting to 9.9 million metric tons, 12-percent moisture bauxite on an annual basis, which represents about 4 percent of global capacity. We have an effective ownership of 100 percent of Paragominas.

Bauxite production



Operations at Paragominas commenced in the first quarter of 2007, and began supplying raw material to the Alunorte alumina refinery at the same time. An expansion - Paragominas II - was completed in the second quarter of 2008. The potential for further expansion is estimated to be 5.0 million mt per year and up to 15 million mt in total.

Mining at Paragominas is currently based on traditional technology and equipment. Operations include a mining fleet of about 170 vehicles and 850 employees. Going forward, productivity, and therefore operating cost improvements, can be achieved through the introduction of continuous mining technology, including large-scale excavators and long-distance conveyor systems.

The site is connected to a 244-kilometer slurry pipeline with an annual capacity of 14.9 million mt. It is the only bauxite slurry pipeline in the world, and has significant integration advantages combined with a very low environmental impact.

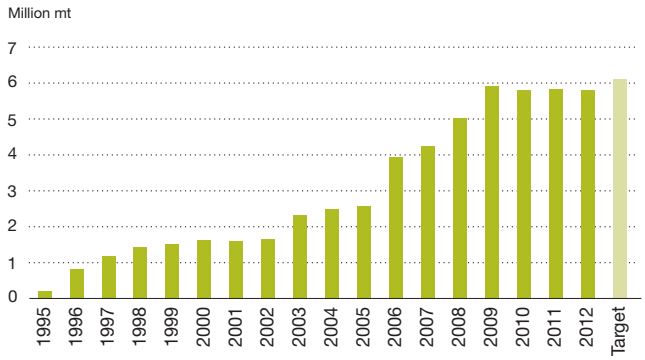
Paragominas supplies all of its production to Alunorte. In 2012, Paragominas provided about 62 percent of Alunorte's bauxite requirements. The remainder was provided by MRN, in which Hydro has a 5 percent ownership interest.[1)]

Alumina refining

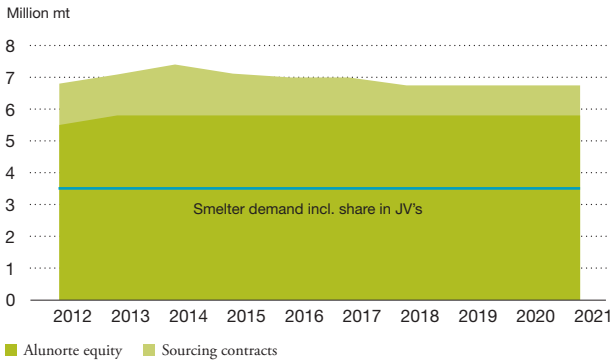
Hydro's major alumina asset is its 92 percent interest in Alunorte. Following the completion of a third expansion in 2008, the Alunorte refinery has an annual capacity of approximately 6.3 million mt of alumina. Alunorte is competitive due to the high quality of its alumina, advantages in scale and technology, low energy consumption and labor costs. The plant has several cost advantages, including an efficient energy mix of heavy fuel oil and coal, competitive caustic soda consumption due to high quality bauxite and a potential for lower transport costs through higher pipeline throughput.

CAP, a new alumina refinery to be located in Barcarena, close to Alunorte, has been under evaluation for development in a joint venture between Hydro and Dubai Aluminium Company Limited (Hydro's share, 81 percent). The refinery is expected to have an initial annual capacity of 1.9 mt, with the potential for expansions up to 7.4 million mt over four phases. The plant will be supplied with bauxite from the Paragominas mine. CAP is expected to be built on technology and project execution experienced gained from Alunorte. Development is expected to be carried out in parallel with an expansion of the Paragominas mine. In March 2012, a decision was taken to postpone the development of CAP due to market uncertainty.

Alumina production



Alumina position



Commercial operations

Hydro sources bauxite from Paragominas and MRN and alumina from Alunorte, and a number of external sources. In addition to its own equity interests, Hydro has a volume off-take agreement for Vale's 40 percent interest in Paragominas and a contract for 40 percent of the volume produced by MRN, which amounted to 17 million mt (100 basis) in 2012.

External sources for alumina include Hydro's contract with Rio Tinto for the supply of 500,000 mt of alumina annually from 2006 through 2030. We have also exercised an option for an additional 400,000 mt of alumina deliveries linked to the expansion of Rio Tinto's Yarwun refinery in Australia in addition to other short and medium-term purchase contracts. These contracts typically have pricing formulas based upon a percentage of the LME price.

We also enter into contracts to buy and sell alumina in order to optimize our physical alumina portfolio on a short and medium-term basis.

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

1) Earnings from our investment in MRN are included in "Financial income."

Primary Metal

Industry overview

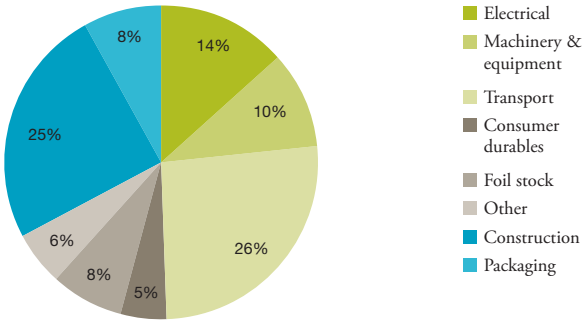
Primary aluminium is derived from bauxite, which is refined into alumina. Aluminium smelting is a capital-intensive, technology-driven industry concentrated in relatively few companies. Geographically, China is the largest consumer and producer of aluminium, impacting market fundamentals. India, Russia and the Middle East are also growing in importance in the production of aluminium.

Secondary aluminium is derived from remelting and recycling aluminium scrap. Scrap is generated both in the production and use of aluminium products. Recycling of old scrap only requires about 5 percent of the amount of energy that is needed for electrolysis. 20-25 percent of aluminium products are made from used consumer scrap. Roughly 75 percent of all aluminium produced since the Hall-Heroult process was discovered in 1886 is still in use.

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

2012 Global aluminium consumption* by end use

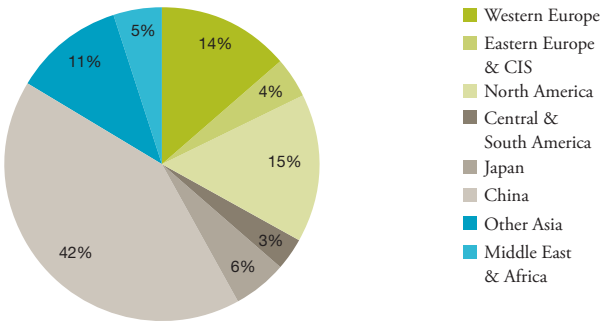
Total market 65,253 mt



* Consists of semi fabricated products(included recycled aluminium)
Source: CRU

2012 Global aluminium consumption* by region

Total market 65,253 mt



* Consists of semi fabricated products(included recycled aluminium)
Source: CRU

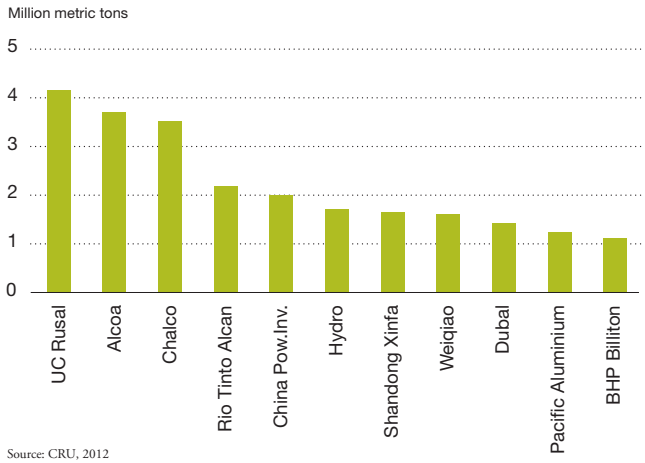
Demand for aluminium products in mature markets like North America and Europe is normally in line with economic developments, although with grater volatility. We expect a demand growth in the world outside China of 2 to 4 percent in 2013 and global growth of 4 to 6 percent over the coming 10 years, driven primarily by infrastructure investments and economic development in China and other large, developing economies.

Structural developments
As a result of industry consolidation, relatively few companies are producing a substantial portion of primary metal on a global basis. Hydro, the sixth largest producer, increased its capacity by nearly 50 percent in 2011, with the full ramp up of Qatalum in Qatar and the integration of the Albras smelter in Brazil. Several important smaller producers in emerging markets exhibit strong growth ambitions. However, access to sufficient bauxite resources appears to be a constraint. There are also several new operators in China, which are presently focusing on supplying the Chinese market.

Most companies appear to be targeting integration into both energy and bauxite, while the focus on downstream integration has been lower. As a result, the downstream aluminium industry has evolved significantly, with consolidation as well as spin-offs from large integrated aluminium companies. In 2012 there were only two major global integrated aluminium companies - Alcoa and Hydro. Hydro is participating in a further restructuring of its downstream business with the announcement of the planned Sapa joint venture which is expected to be completed in the first half of 2013. Sapa is expected to be the world's largest extrusion company.

Aluminium price developments
Primary aluminium is traded on various metal exchanges, primarily the London Metal Exchange (LME) which was recently sold to Hong Kong Exchanges & Clearing Ltd., the world's second largest bourse company by value. The Shanghai Futures Exchange (SHFE) has grown in importance for international trade of standard ingots with China. However, China has followed a policy of promoting a balanced internal market, and has used incentives to discourage the export of primary metal, while encouraging the export of higher-value added fabricated and semi-fabricated products.

Top 10 world primary aluminium producers in 2012



Source: CRU, 2012

Aluminium price in USD/mt

Aluminium prices are heavily influenced by economic and market developments. During the financial crisis of 2008/2009, prices exhibited an historic decline as turmoil in the financial markets spread into the general economy. Prices were volatile but improved continuously until the first half of 2011, before falling to around USD 2000 at the end of the year. Prices continued to be volatile throughout 2012. Average prices were relatively low, amounting to USD 2050 per mt for the year as a whole.

Reported inventories increased significantly in the previous downturn, more than doubling from under 3 million mt to over 7 million mt, representing about 2 months of global consumption. Inventories have remained at around this level with a large portion of the metal owned by financial investors taking advantage of low interest rates, warehouse incentives and contango in the forward aluminium markets. The increase in inventories of standard ingot has resulted in a tight physical market and historically high ingot premiums. We expect this situation to continue under present economic conditions.

Cost developments
Over the last six years, the aluminium industry cost curve has increased on average about USD 300 per metric ton, mainly due to higher input costs driven by strong demand for raw materials in emerging economies and in China in particular. More than half of the increase is related to power with the remainder reflecting higher costs mainly for carbon and alumina. The upward trend paused temporarily in 2009 as commodity prices in general fell. However, costs increased again in 2010 and 2011 before stabilizing at a relatively high level in 2012. Costs are expected to increase somewhat in 2013.

In the future, primary aluminium production is expected to be developed in energy-rich areas where power prices are more competitive than in developed energy markets such as Europe and the U.S. Such countries and regions are expected to include the Middle East, India and some countries in Africa and Asia. China will continue to be the most important producer and consumer of primary metal.

Strategy and targets

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

Further improve our average smelter-cost position

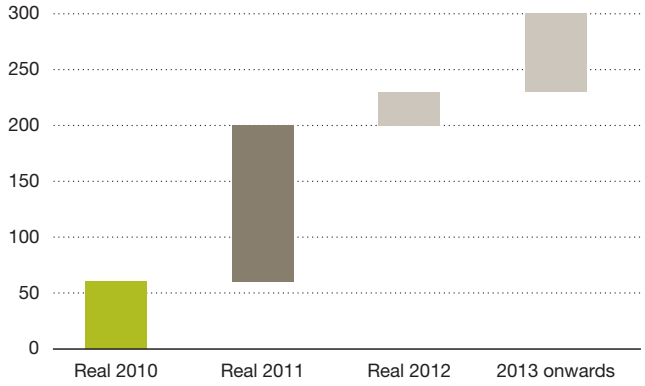
Our core strategy has been the continual upgrading of our smelter portfolio, replacing higher cost, less-competitive production with new capacity in more efficient smelters. To further improve Hydro's competitiveness we have targeted significant improvements in efficiency and reduced costs in our wholly owned smelters. Substantial savings have been achieved and completing the final phase of our USD 300 program will be a top priority in the coming year. Working with our joint venture partners, we will also focus on improvements within our part-owned operations based on experience gained. In particular, we will focus on operational improvements at Albras together with further streamlining of production and cost optimization at Qatalum.

Improvement program increased to USD 300 per mt

Improvement initiatives:

- Operational improvements
  - Improved current efficiency
  - Reduced power consumption
  - Reduced anode consumption
- Fixed cost reductions and lean operations
- Further operational improvements
- Technology costs/spin-offs
- Investments
- Maintenance and relining
- Procurement
- Logistics
- Organization and manning
- Casthouse product margin

Annual cost savings compared to 2009:



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

We have a secure alumina equity position and an industry-leading captive power position with roughly [two-thirds] of our energy usage based on hydro power. We are continually working to secure competitive power arrangements as long-term contracts expire. Securing a new contract for the Slovalco smelter and optimizing the power sourcing framework for Albras will be key priorities in the coming year. We will also continue to focus on the procurement and supplier portfolio for our carbon requirements.

Advance our operational excellence and technological leadership

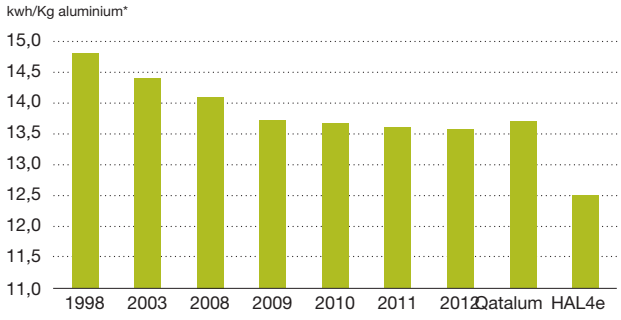
We focus on extracting measurable benefits from the application of our AMPS system (Aluminium Metal Production System), a methodology designed to ensure best practices and operating efficiencies across our portfolio. We are developing new proprietary smelting technology with the aim at raising our cost competitiveness, to further strengthen our environmental standards and to support our long-term growth ambitions.

Focus on selective growth projects

Our growth ambitions are directed toward projects with the potential to improve Hydro's cost position, while maintaining a strong focus on sustainable development. A second phase of the Qatalum smelter has the potential to increase the plant's annual capacity to 1.2-1.5 million mt (Hydro share, 50 percent). There is also potential to expand the low-cost Alouette smelter in Canada from 600,000 mt to 900,000 mt (Hydro share, 20 percent). However, due to the current market uncertainty these projects are on hold.

Strong performance culture

Reduced specific energy consumption



* Average specific energy consumption from 100%-owned Norwegian smelters

2012 targets

- Safe and efficient operations
- Cost reductions targeted to USD 300 per mt, including USD 235 per mt by end 2012
- Secure first quartile cost position for Qatalum
- Continue strong capital discipline

2012 results

- TRI improved compared with 2011 and better than industry standard.
- Achieved targeted cost reductions by the end of 2012
- First quartile cost position for Qatalum confirmed in 2012
- Strong focus on capital discipline resulting in a substantial reduction of operating capital in addition to continued low level of sustaining capital expenditure

2013 targets

- Safe and efficient operations
- Complete USD 300 cost reduction program and maintain strong cost discipline in all smelters
- Increase improvement efforts within joint venture operations
- Further streamlining and cost optimization at Qatalum
- Optimize casthouse operations through further integration of sales and production organizations
- Continue strong capital discipline; capital expenditure and net operating capital

Ambitions going forward

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

Operations

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

Cost and revenue drivers

The main cost drivers for the production of primary aluminium include alumina, power and carbon, which together comprise about 75 percent of the cash costs of electrolysis metal. Approximately two metric tons of alumina are required to produce one metric ton of aluminium, representing about 30 percent of the production cost of primary aluminium.[1)] Energy represents on average about 25-30 percent of the operating costs. Carbon anodes consumed in the smelting process account for approximately 15-20 percent of the total production cost of primary aluminium.

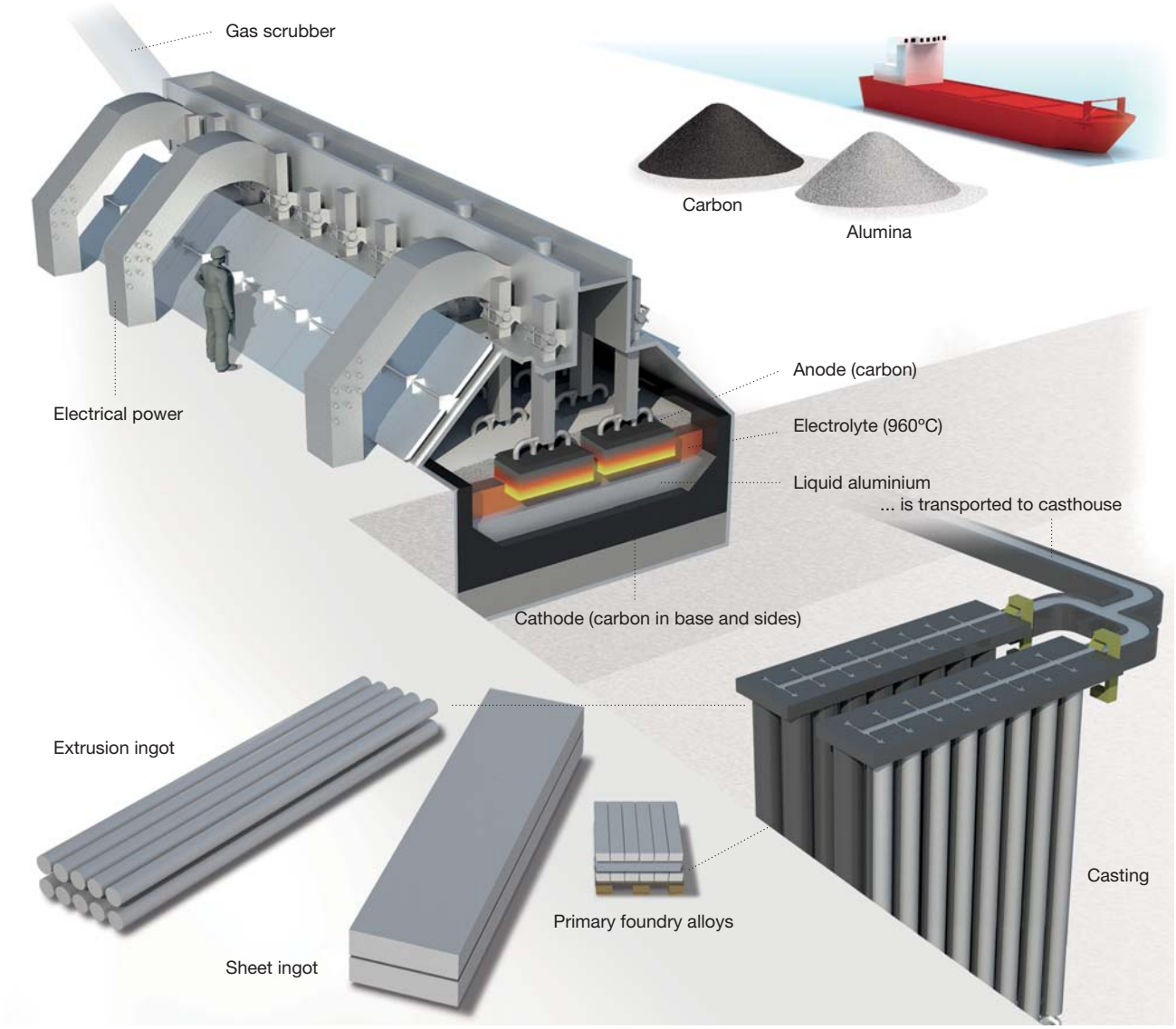
Realized aluminium prices are the single most important revenue driver. From February 2013 we have changed our pricing formula for metal sales in order to correspond more closely to customer pricing behavior. Prices are now fixed mainly one month prior to production. As a result, and due to the hedging of product inventories, Hydro's realized aluminium prices lag LME spot prices by around 1.5 to 2 months.

Competitive strengths

- Worldwide production network of modern, cost efficient primary aluminium facilities including the Norwegian plant in Sunndal, which is the largest and most modern primary metal plant in Europe, and Qatalum, our new, world-class smelter in Qatar
- Attractive partner with nearly half of our capacity sourced from joint venture arrangements
- Competitive position on the industry cash-cost curve
- Culture of continuous improvement and solid track record of continually upgrading efficiency of smelter portfolio

- Most primary aluminium output sold in the form of value-added casthouse products
- Captive alumina position with 100 percent coverage
- Robust power position, largely based on hydro power. Substantial coverage of current production until 2020 and beyond
- Technological leadership and world-class smelter technology

Aluminium smelting process



Primary aluminium is produced in reduction plants where pure aluminium is formed from alumina by an electrolytic process. This process is carried out in electrolytic cells, in which the carbon cathode placed in the bottom of the cells forms the negative electrode. Anodes, which are made of carbon, are consumed during the electrolytic process when the anode reacts with the oxygen in the alumina to form CO_2. The process requires electric energy, about 13 kWh per kilo aluminium produced in modern production lines.

Aluminium smelter system

Hydro is one of the world's largest producers of primary aluminium, with production from 11 wholly or partly owned plants in 2012. In 2012, we produced 1.985 mt of primary aluminium. Actual electrolysis production continued to be impacted by curtailments that were completed at several plants in the first half of 2009. See the section, Financial and operating performance, for actual electrolysis and casthouse production for the years 2012 and 2011.

Plant	Country	Employees (per Dec. 31)	Electrolysis capacity (000 mt) [1]	Casthouse capacity (000 mt)	Main products	Key characteristics [2]
Karmøy	Norway	420	190 [3]	230	extrusion ingot, wire rod	• Two prebake lines • R&D center, rolling mill, extrusion plant and other downstream activities
Årdal	Norway	546	192	330	sheet ingot, foundry alloys	• Two prebake lines • Substantial anode production • Technology and competence center
Sunndal	Norway	688	390 [4]	515	extrusion ingot, foundry alloys	• Two prebake lines • Major expansion completed 2004 • Largest and most modern plant in Western Europe • Casthouse expansion and other enhancements completed in 2007
Høyanger	Norway	156	63	120	sheet ingot	• One prebake line • New casting furnace installed 2009
Søral (49.9%)	Norway	249 (100% basis, per Dec. 31)	90 [5]	95	extrusion ingot	• Joint venture with Rio Tinto Alcan (RTA). • Plant expansions in 1997 and 2003 • New long term power contract expiring end of 2020
Slovalco (55.3%)	Slovakia	469 (100% basis)	165 (100% basis)	179 (100% basis)	extrusion ingot, foundry alloys	• Joint venture with Penta (Slovakia) • One prebake line • Long-term power contract expiring end of 2013 • Among the world's lowest cost smelters
Kurri Kurri	Australia	11	180 [6]	185	extrusion ingot, foundry alloys	• Three prebake lines • Completed substantial plant upgrade in 2006 • Long-term power contract expiring end of 2017
Tomago (12.4%)	Australia	957 (100% basis)	68	67	standard ingot, extrusion ingot, sheet ingot	• Joint venture with RTA and GAF • Three prebake lines • Largest producer in Australia • Among world's lowest cost smelters • Expansions in 1992, 1998, 2002 and 2006
Qatalum (50%)	Qatar	1 186 (100% basis)	302	313	extsruion ingot, foundry alloys	• Joint venture with Qatar Petroleum • Two prebake lines • Worlds largest one-step smelter construction • Among world's lowest cost smelters • Long term power contract expiring end of 2028
Alouette (20%)	Canada	1 093 (100% basis)	119	116	standard ingot	• Joint venture with RTA, AMAG and SGF/Marubeni • Two prebake lines • Largest producer in North America • Among the world's lowest cost smelters • Expansion completed May 2005 • Long term power contract expiring end of 2030
Albras (51%)	Brazil	1 195 (100% basis)	460 (100% basis)	425 (100% bais)	standard ingots	• Joint venture with NAAC • 4 prebake lines • Largest producer in South America • Liquid sales to Alubar (32 kt) • Long term power contract expiring end of 2024

1) Production and casthouse capacity for part-owned companies represents our proportional share. For financial reporting, Søral and Qatalum are accounted for as an equity investment while Tomago and Alouette are consolidated on a proportional basis. Slovalco and Albras are fully consolidated in terms of volumes and financial results.

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

3) Capacity reduced by 120,000 mt due to permanent closure of Søderberg line in the first quarter of 2009.

4) Actual production impacted by curtailment of about 100,000 mt of capacity in the second quarter of 2009.

5) Actual production impacted by curtailment of about 43,000 mt of capacity (Hydro share) in the first quarter of 2009. Restart of 15,000 mt of capacity was commenced in 2011 and 35,000 mt of capacity in 2012.

6) Actual production impacted by curtailment of 60,000 mt of capacity in January, 2012, followed by shut-down of remaining 120,000 mt in June 2012

Power

Internal supply contracts between our hydropower production operations and our aluminium metal business covered about half of the energy consumption of our wholly owned Norwegian smelters in 2012. The remainder was mainly covered by external supply contracts with Statkraft, a Norwegian electricity company. These contracts will expire in 2020.

Energy for Qatalum is provided by an integrated natural gas-fired power plant supplied by Hydro's joint venture partner, Qatar Petroleum. Albras purchases electricity from the Tucuru hydroelectric power plant under a long-term agreement from Eletronorte. Approximately two thirds of our energy requirements are provided by hydropower. Energy for the remainder of our smelter system is covered under medium to long-term contracts.

In 2012, long-term energy contracts between Hydro, Adger Energi, Lyse and Statkraft were concluded for the annual supply of 2.6 TWh to the Søral smelter over an eight year period starting in 2013. In addition, a new long-term contract was signed for the potential expansion of Alouette and extension of the existing contract. In Brazil, a dialog has been established between the government and industry to address challenging power costs due to inflation and the strong BRL.

Anodes
Most of our smelters produce anodes on-site, and several of these facilities have been upgraded and expanded over the years.

Technology and HSE
Our proprietary technology plays an important role in securing our competitive position. We believe our technology serves as an industry benchmark for environmental performance, and sets high standards for safety and productivity. We have targeted a 25 percent reduction in research and development costs compared to 2009, which will mainly impact lower priority projects as part of our USD 300-per-mt improvement program.

We have a strong commitment to safety including a systematic review and follow up of several key performance indicators. One of these, the TRI rate (total recordable injuries per million hours worked), decreased in 2012 to 2.1 from a level of 3.1 in 2011.

1) We purchase alumina from Alunorte based on prices linked to the LME, with a lag of one month. Prices are adjusted monthly based on the average monthly LME three-month prices, applied with a one-month delay.

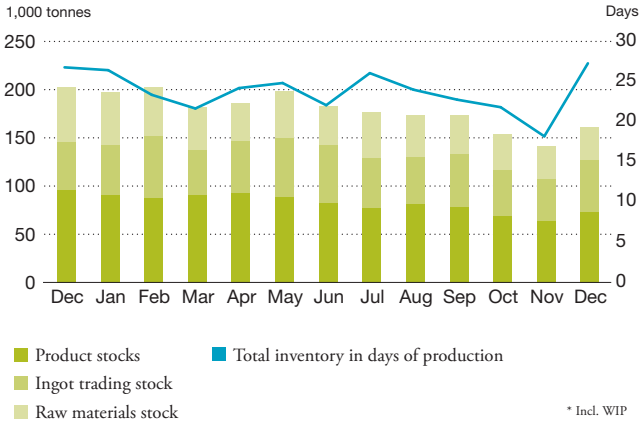
Metal Markets

Strategy and targets

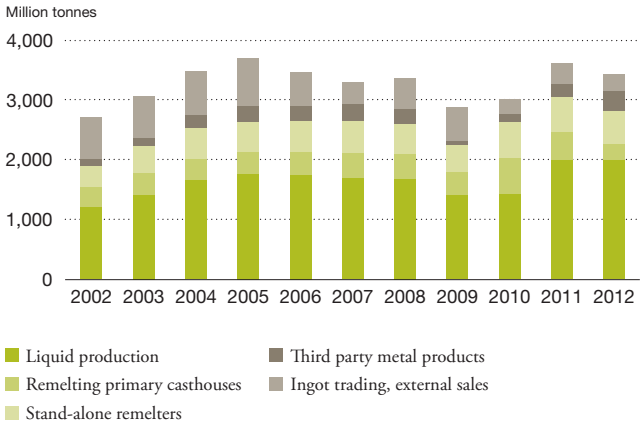
Hydro's flexible and extensive multi-sourcing system enables us to rapidly adjust our remelt production to market demand. We intend to capitalize on this flexibility going forward to secure our market position and create additional value on top of LME for our primary capacity. We will also exploit this competitive advantage to optimize our casthouse utilization and increase our premium margins. Global optimization of Qatalum sales volumes targeting markets with the strongest demand development will be a key priority for the coming year.

Focus on strong margin management
We will continue to focus on strong margin management to contribute towards improved earnings in our primary casthouses and stand-alone remelters. Product premiums have become a relatively larger share of total aluminium metal prices and optimizing product premium margins will be at the top of our agenda for the coming year. This includes shifting production toward higher premium alloys, reducing higher cost remelting to improve market balance, shorter duration premium pricing and global optimization of product sales towards stronger markets. We will also concentrate on further integrating our sales and production organizations strengthening coordination and improving our ability to exploit market opportunities.

Inventory development 2012*



Sales of casthouse value added products and ingot trading



Increase our business volume with limited asset investment and grow in recycling
We have focused on building a strong position in the metal products markets to optimize the capacity of our integrated casthouses, grow our remelt operations and offer substantially higher volumes of value-added products into the marketplace. Subject to improved market conditions, we plan to become a leading player in recycled aluminium to pursue opportunities in this growing market segment.

Risk management
We have substantial expertise within our Risk management group to enhance the value of our commercial portfolio, using strategies aimed at reducing the exposure of our margins to changes in the LME commodity prices and currency rates. We will continue to leverage this expertise by developing and executing strategies to hedge such risk exposures within our upstream and downstream businesses, mainly resulting from time lags between our manufacturing process and the pricing of products to our customers.

2012 targets

- Safe operations with continuous TRI rate reduction
- Pursue optimal market position regarding margin and volume developments
- Achieve operational improvements in commercial activities and production operations from defined performance programs
- Gain market share in new high purity aluminium products
- Progress on execution of Hydro's recycling strategy

2012 results

- Significant decrease in TRI rate to the target level
- Due to challenging markets, optimization of market position has resulted in a reduction of cold metal remelting and closure of foundry alloy casthouse capacities
- Achieved targeted results in profitability increase and cost reduction from improvement programs
- Due to challenging market conditions, gains in market share in new high purity aluminium products has not been achieved
- Incremental increase in recycled scrap usage in existing casthouses

2013 targets

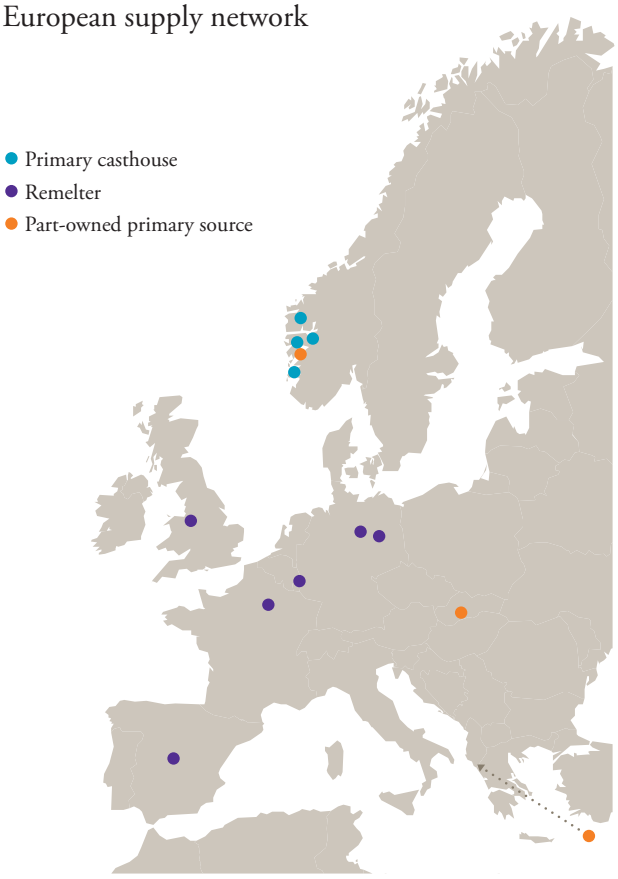
- Safe and efficient operations with further reduction of TRI rate
- Further integration of production and market organizations for improved value creation
- Optimization of regional and global metal balances to exploit market opportunities and improve margins
- Realization of increased volumes from new high purity aluminium products contracts

Ambitions going forward
Our vision is to be the preferred partner for casthouse products and services. Our ambition is to utilize the flexibility of our multi-sourcing system and manage our product portfolio globally in order to optimize margins and our global market share, including developing positions in emerging markets. We will continue a strong focus on safety, and maintain firm discipline on operating costs and capital expenditures.

Operations

Metal Markets includes all sales and distribution activities relating to products from our primary metal plants, our stand-alone remelters and our high purity aluminium business. We operate eight remelters, which recycle mainly scrap, but also standard ingot[1)] into new products. We also market metal products from our part-owned smelters and third parties, and engage in other sourcing and trading activities, including hedging activities on behalf of all business areas in Hydro.

European supply network



Cost and revenue drivers

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

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

Our results can be heavily influenced by currency effects[2)] and ingot inventory valuation effects[3)]

Competitive strengths

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

Remelting

We have a network of eight stand-alone remelt plants that convert scrap metal and standard ingot into extrusion ingot. We have six plants in Europe and two in the U.S. with a total capacity of about 0.6 million mt including roughly 0.4 million mt in Europe. Our facilities in Europe are located in Luxembourg, the United Kingdom, Germany, Spain and France. Total remelt activity, including remelted metal from casthouses integrated with our primary metal plants and third-party sourcing, has historically represented about half of our total sales of metal each year, but has been reduced during 2012 to adjust market balance and improve margins. In addition to remelting scrap returned from customers, we purchase clean scrap and end-of-life scrap from third parties. Standard ingot is procured globally under a combination of short and long-term contracts.

Sourcing and trading

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

Our main risk management objectives are to secure margins in our midstream and downstream businesses, and to obtain the prevailing average LME price for our smelting system. Our sourcing and trading operation acts as an internal broker for all LME-hedging transactions by our business units in order to consolidate Hydro's exposure and reduce transaction costs.[4)]

Markets, products and customers

Most of our aluminium is sold in the form of value-added casthouse products such as extrusion ingot, sheet ingot, foundry alloys and wire rod. Our product with the highest volume is extrusion ingot, which is sold to extruders producing aluminium profiles. The most important end-use segments include the building and construction industry, transport and general

engineering. Our key market region for extrusion ingot is Europe. However, with the ramp-up of Qatalum, the Asian and U.S. markets have become increasingly important to Hydro. Other important markets for Qatalum include Turkey, the Middle East and Australia/New Zealand.

Foundry alloys are sold to foundries producing cast parts primarily for the automotive industry. Our largest market for primary foundry alloys has been Europe. However, following the closure of casthouse capacity in Europe during 2012, Asia has become our most significant market for this product. Sheet ingot is sold to European rolling mills, with packaging and transportation as the most important end-use segments. Wire rod is sold to wire and cable mills in Europe for power transmission and other electrical applications.

We also produce and sell high purity aluminium products and other specialty products, mainly used in the electronics industry in products like electrolytic capacitors, semi-conductors and flat-panel displays, as well as in aviation and aerospace applications.

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

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

1) Aluminium standard ingot is a global aluminium product traded on the London Metal Exchange (LME).

2) Currency effects are comprised of the effects of changes in currency rates on sales and purchase contracts denominated in foreign currencies (mainly U.S. dollars and Euro for our Norwegian operations) and the effects of changes in currency rates on the fair market valuation of dollar denominated derivative contracts (including LME futures) and inventories, mainly translated to Norwegian kroner. These amounts can be very substantial. Hydro manages its external currency exposure on a consolidated basis in order to take advantage of offsetting positions.

3) Ingot inventory valuation effects are comprised of hedging gains and losses relating to standard ingot inventories in our metal sourcing and trading operations. Increasing LME prices result in unrealized hedging losses, while the offsetting gains on physical inventories are not recognized until realized. In periods of declining prices, unrealized hedging gains are offset by write-downs of physical inventories.

4) These hedging activities, which are designed to mitigate cash exposures, can generate significant underlying accounting effects, partly due to asymmetrical accounting treatment.

Rolled Products

Industry overview

The aluminium rolled products industry is characterized by economies of scale, with significant capital investments required to achieve and maintain technological capabilities and to meet customer qualification standards. Worldwide consumption amounted to approximately 19.6 million mt in 2012. China has become the single most important market, representing roughly 30 percent of global consumption. North America, Europe and the remaining regions account for roughly 23 percent each. In Western Europe the five largest producers represent about 80 percent of the market. Substantial overcapacity exists in the Chinese market representing a potential threat to producers in other regions.

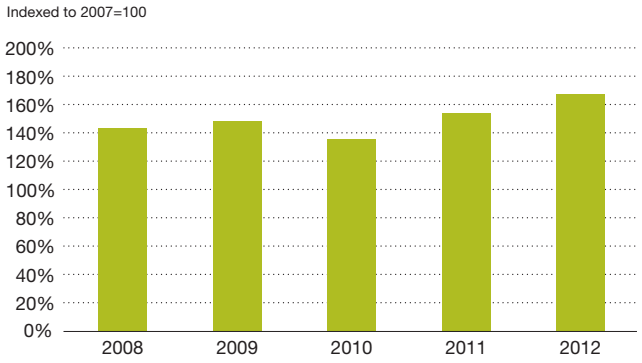
Strategy and targets

Securing increasing returns for our Rolled Products business operations continues to be a key priority. Margins will remain in focus, and measures aimed at increasing efficiency and reducing costs will continue as we pursue innovative product development and close cooperation with our customers.

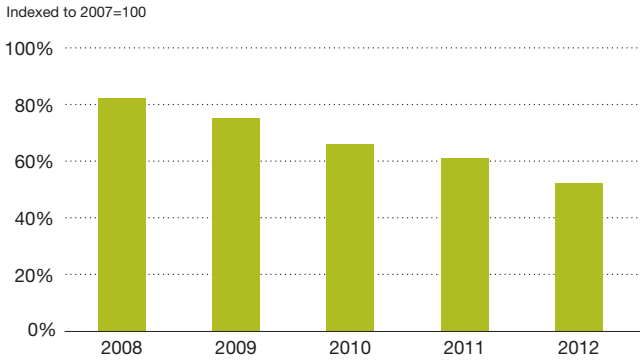
Build on our strong position in Europe
We intend to develop and improve our market share by leveraging our preferred supplier position and optimizing the mix of products and services that we deliver to the market. With a focus on our strong position within packaging, general engineering, lithographic sheet and automotive, we will continue to emphasize the quality of our products and services to our customers in order to drive the performance of our business. Differentiation through innovation remains a key competitive strategy.

Sustain our cost reductions through continuous improvement
We plan to utilize our Rolled Products Business System methodology to support process and productivity improvements, continuous cost management and cost improvement programs across our operations. We will focus on efficiency throughout our operating environment and exploiting the strengths in our asset base and core competencies.

Delivery performance*



Claim rate



* Measurement of fulfillment of a customers demand in terms of quantity and time

2012 targets

- Further HSE improvement, with focus on high risk areas
- Defend margin level
- Maintain customer focus with further improvement in delivery reliability and quality
- Finalization of the product optimization program
- Operational performance improvements with focus on productivity and higher cost efficiency
- Improve inventory turnover rate, strong focus on counterparty risk

2012 results

- TRI-performance well ahead of last year
- Average margin level defended at 2011 level
- Improvements achieved within delivery reliability and quality
- Product optimization program finalized
- Operational performance impacted by lower demand and shipments
- Inventory turnover rate improved, no significant counterparty default

2013 targets

- Continued HSE improvement
- Continue to defend margin levels within challenging market environment
- Further operational performance improvements with focus on productivity and cost efficiency
- Drive cost programs in all plants
- Improve inventory turnover rate despite market uncertainty
- Maintain strong focus on counterparty risk

Ambitions going forward

We are committed to safety and to eliminating serious accidents in our operations. We aim to increase the returns of our business, concentrating on margins, cost efficiency and operational excellence - supported by the Rolled Products Business System, involving all employees in continuous improvement. We will stay focused on innovation and technology to sharpen our competitive edge.

Operations

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

Hot rolling process

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

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

Competitive strengths

- Largest producer in European rolling industry with estimated 16 percent market share in Europe
- Global reach with 33 percent export for high-end markets, serving key customers in the Americas, Middle East and Asia-Pacific
- World class assets including Alunorf, (50 percent) the world's largest rolling mill, and Grevenbroich, the world's largest multi-product finishing mill
- World leading positions in high-end products foil and lithographic sheet

Rolling mills
Our flat rolled products operations are primarily located in Europe, where we generated approximately 71 percent of our total sales volume in 2012. More than half of our European production was produced in the Grevenbroich/AluNorf rolling system in Germany, one of the most modern and efficient rolling operations in the world. Grevenbroich is the center of our packaging and lithographic sheet operations. Our rolling mills employ around 4,000 people.

Plant	Country	Capacity (000 mt)	Main products	Key characteristics
Grevenbroich AluNorf 50%	Germany	650	Packaging, lithographic sheet, automotive	• The center of our packaging and lithographic business • Supplied by nearby Alunorf hot-rolling mill • The world's largest hot-rolling mill • 50/50 joint venture with Novelis • Partly supplied with sheet ingot from nearby Neuss Rheinwerk smelter • Newly invested recycling furnace
Hamburg	Germany	180	General engineering, automotive, heat exchanger	• Integrated casthouse
Slim	Italy	95	General engineering, packaging	• Integrated casthouse • New cold-rolling mill and major upgrade of hot-rolling mill in 2005-2006
Karmøy	Norway	95	General engineering	• Continuous casting
Holmestrand	Norway	83	Building, general engineering	• Integrated casthouse
AISB	Malaysia	30	Packaging	• Continuous casting

Our production network mainly comprises the so-called "wall-to-wall" processing, including an integrated casthouse combined with both hot and cold rolling mills. Around 8 percent of our production is based on a continuous casting process taking place at the Karmøy plant in Norway and the plant in Malaysia.

Around 41 percent of the metal we purchase is sourced internally, based on arm's-length prices related to the LME price and sheet ingot premium. External supplies of sheet ingot, standard ingot and scrap collected from the market amounted to

approximately 59 percent of our total requirements in 2012. In addition, we recycle process scrap from customers, together with our own process scrap.

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

Our rolled products business is organized into three product-based business units serving the different market segments in which we operate.

Business unit	Shipments in %	Key characteristics
Lithography, automotive & heat exchanger	32	• Largest producer in the lithographic sheet market • Serving OEMs and their suppliers with strip and sheet for body, component and chassis applications • Automotive and non-automotive heat-transfer applications
Packaging and Building	43	• Main markets include beverage can, packaging and lacquered building products • Global player with strong lead leadership position in the high value-added liquid packaging market segment
General Engineering	25	• General engineering products used in building, transportation and industrial applications

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

Automotive: We are the second-largest supplier of aluminium sheet and coil to the European automotive market for interior and exterior vehicle body parts, chassis and component applications. Key customers include BMW and Daimler, Peugeot and Porsche. Production is focused within our Grevenbroich and Hamburg plants.

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

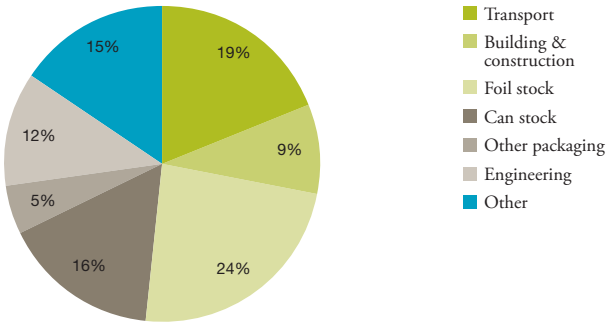
Packaging & Building
Packaging: ISO certified, we serve customer needs in the rigid and semi-rigid packaging industry, offering plain and converted strip and foil in thicknesses ranging from 0.006 - 0.500 mm. We provide packaging solutions combining high-quality manufacturing with innovation, cost effectiveness and sound ecological characteristics. We also offer a wide range of services relating to our packaging products in terms of consulting and technical support. In addition, we are specialists in thin-gauge foil for flexible packaging, offering foil as thin as 6.0 µm for the packaging of food and pharmaceuticals as well as for technical applications, including converted qualities with a variety of lacquered, laminated and coated finishes. Production of packaging is mainly concentrated in our Grevenbroich rolling mill. TetraPak, with liquid packaging, is one of our key customers.

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

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

Flat rolled products consumption Western Europe 2012

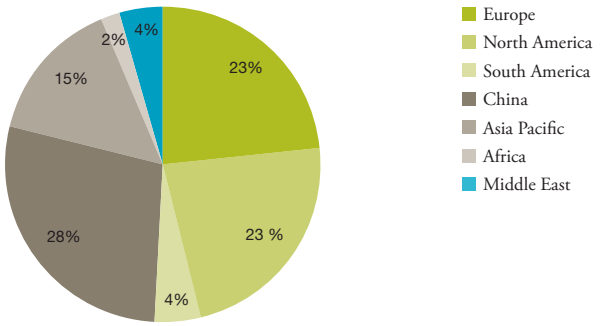
Total market 3,713 Kmt



Source: CRU quarterly November 2012

Global flat rolled products consumption 2012

Total market 19,609 Kmt



Source: CRU quarterly November 2012

General Engineering

Hydro is a leading supplier of hot and cold rolled aluminium strip and sheet, offering a comprehensive range of products tailored to meet the individual requirements of a variety of applications in the industrial and consumer products sectors. Examples include coil and sheet for wholesalers; aluminium coil for transformers and electrical-technical applications; and coil, sheet and circles for household applications such as cookware, baking trays and ladders. We operate modern and efficient manufacturing processes, offering quality products and extensive technical support.

Extruded Products

Industry overview

In Europe, the five largest producers of extruded products represent about half of the market. The remainder is very fragmented, with approximately 220 producers. Imports represent roughly 11 percent of the total European market. Over past several years there has been significant overcapacity in the extrusion industry in Europe and in southern Europe in particular. Combined with weak economic developments, this has lead to a further increase in market competition in 2012 and restructuring activities within the industry. Weak markets and margin pressure are expected to continue in 2013 which may result in further restructuring efforts. Despite these developments, companies with high quality products and services and competitive costs, are able to defend margins that lead to sustainable returns.

The North American extrusion industry is somewhat more consolidated than the European industry. Today, the four largest producers represent about 50 percent of the market, while another five medium-sized producers cover about 15 percent of the market. Imports remain around 13 percent of the market indicating that the anti-dumping and countervailing duties on extruded products from China continue to limit the market penetration of Chinese extruders. Despite this and despite solid growth in extrusion demand during the past year, as well as the consolidation of extruders during the previous economic downturn, margins remain under pressure due to overcapacity.

Brazil represents over half of the South American extrusion market, followed by Argentina. The market consumption of extruded products is relatively low. There are many small operators, however, four of the largest suppliers cover more than 50 percent of the market volume.

The European building systems industry remains fragmented, with five large producers and a significant number of smaller operators that serve regional markets. Overcapacity in southern Europe and the U.K., due to the sharp decline in the building market, has resulted in increasing competition.

Precision tubing is a global business, mainly focused on heat transfer applications for the automotive market such as air conditioning and refrigeration systems. Non-automotive applications are growing in importance, supported by increasing substitution of aluminium for copper, particularly in the heating, ventilation, air condition and refrigeration market. The industry is relatively fragmented, with about 15 key producers covering a substantial share of the total market.

Strategy and targets

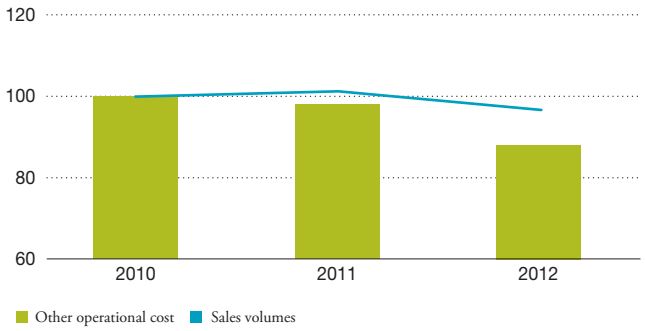
Execution of our expanded improvement program, "Mission 1000", targeting increased cost reductions and operational improvements will be a key priority to strengthen Hydro's Extruded Products operations for the planned Sapa joint venture.

Improve the profitability of our European operations

Following continued weak market developments, we have increased our ambition level aiming for additional significant cost reductions throughout our European extrusion operations. We will maintain our efforts to turnaround our building systems activities and our operations in southern Europe in particular, as we work towards a leaner organization and securing further significant reductions in operating costs. Maintaining a lean level of operating capital will also be a strategic focus, together with the careful follow-up of our counterparty risk.

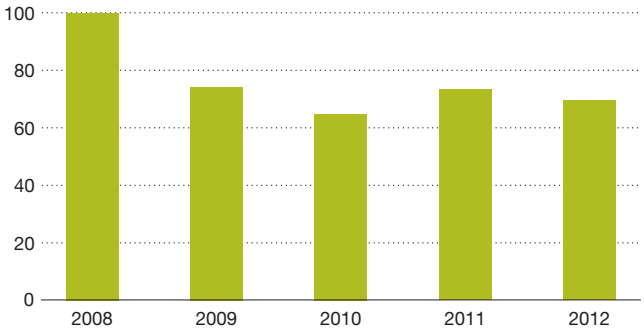
Other operating cost improvements

Indexed compared to 2010 baseline



Net operating capital days

Indexed compared to 2008 baseline



Safeguard the performance of our operations

We intend to improve our operational performance and continue to work closely with our customers to ensure top product innovation and design as well as excellent service levels. We will focus on protecting our margins and actively pursue opportunities to further increase our share of the market by offering superior value and targeting advanced market segments. Going forward, we aim to capitalize on our strong building systems brands - Wicona, Domal and Technal - each of which represents distinct value propositions to customers.

Secure a successful integration planning and execution for the Sapa joint venture

Integration planning and successful execution following approval from the competition authorities will continue to be a top priority in the coming year. In accordance with competition rules and requirements, there will be no activities relating to the execution of the integration or other pre-closing cooperation prior to closing of the transaction.

2012 targets

- Safe operation with continued focus on TRI reduction
- Successful implementation of cost improvement program
- Improve overall cost effectiveness compared to 2011
- Further development of differentiation strategy and strengthen basis for premium prices
- Capture growth opportunities, especially in emerging markets

2012 results

- Reached ambitious TRI target
- Achieved close to EUR 60 million in savings improving overall cost effectiveness
- Focused on advanced technology to differentiate our products and insure value creation for our customers
- Executed investments in new capacity in China and Brazil

2013 targets

- Continued improvement in TRI rate to secure safe operations
- Achieve further improvement targets supported by the Mission 1000 program
- Create a global market leader in extruded aluminium solutions through the Sapa joint venture
- Capitalize on our new investments in China and Brazil

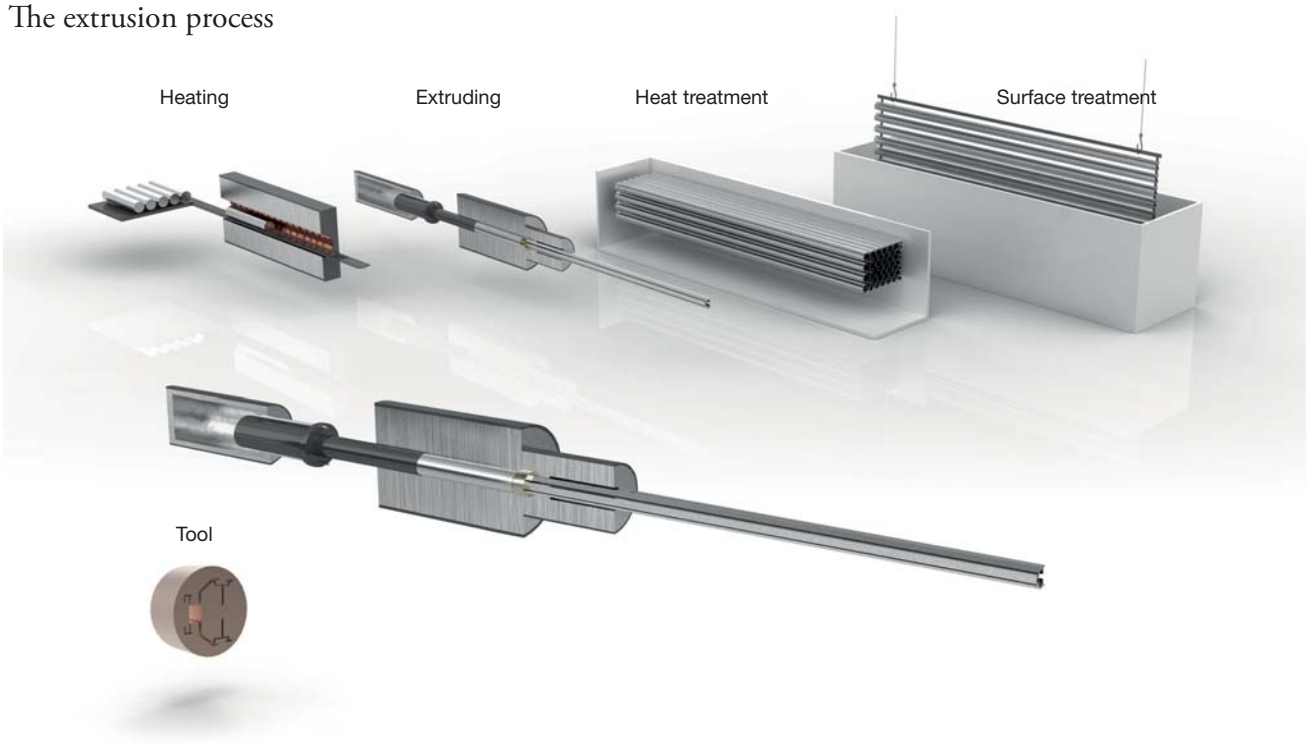
Ambitions going forward

Hydro's new joint venture, Sapa is expected to improve the global reach of our European centered extrusion business and create a stronger foothold for Hydro in North America and several important emerging markets. Our goal is to remain the clear performance leader in Europe's extrusion-based industries. We focus on innovation and technology to sharpen our competitive edge. We are committed to safety and to eliminating serious accidents in our operations. We will make further capacity adjustments in markets with insufficient demand. We intend to further expand in emerging markets to grow our business and improve the profitability of our operations.

Operations

The extrusion process involves pressing preheated metal (450-500 degrees Celsius) under high pressure (1,600-6,500 tons) through a die which forms the metal into the desired shape. Dies come in thousands of shapes, sizes and levels of complexity. Surface treatments such as anodizing, powder coating, lacquering and various mechanical treatments, like grinding and polishing, are employed to reduce corrosion and mechanical wear or provide decorative appearance. In addition, extrusions often go through some form of fabrication activity, like machining, which includes cutting, drilling and tapping. Other value-added activities include joining in the form of welding, adhesive bonding, bolting or riveting.

The extrusion process



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

Cost and revenue drivers

The extruded products business is characterized by mainly short-term contracts for a large number of small orders from small to medium size customers. Most products are value added and produced to order. We sell only a limited amount of commodity type products.

A strong cost focus and careful attention to margin levels are critical success factors. Results are volume sensitive, however, production volume is flexible through adjustments in operating shifts and contract labor.

Competitive strengths

- More than 40 locations in 18 countries, enabling us to be close to our customers with a strong regional presence
- Leading market position in Europe in general extrusions and building systems focusing on energy-efficient building solutions
- Strong position in the U.S. and South America
- Global leader in heat transfer product applications within our precision tubing business

Extrusion operations

Our extrusion operations consist mainly of general soft alloy extruded products and building systems for a diverse customer base within the transportation, building, electrical and engineering market sectors. Our major extrusion and extrusion-related fabrication and building systems operations are located throughout Europe and in North America. We also have a solid foothold in South America, and are developing new extrusion capacity in Brazil and China where we are targeting growth in these key emerging markets.

Our general extrusion activities are organized into three geographic business sectors - Extrusion Eurasia, Extrusion North America and Extrusion South America. Our Building Systems and Precision Tubing operations are organized as separate business sectors.

Sector	Headquarter	Sites	Employees	Key Characteristics
Extrusion Eurasia	Lausanne	23	3200	• 23 Locations including sales offices • 18 Extrusion plants in 10 European countries (including Austria, Belgium, Denmark, France, Germany, Italy, Norway, Poland, Spain and U.K.) and China • Five sites dedicated to die production or fabrication
Extrusion North America	Baltimore, Maryland	7	1300	• Sites in Midwest (4), southeast (2) and western part of the U.S. (1)
Extrusion South America	Itu, Brazil	2	500	• Third largest extruder in South America • Plants in Argentina and Brazil
Building Systems	Lausanne	78	2600	• Designs and delivers solutions for aluminium building applications • European based with over 70 locations • Three locations in Asia and two in the Americas • Operations include sales, technical support, distribution and other services
Precision Tubing	Lausanne	13	1400	• Specializes in aluminium tubes used in heat transfer applications for automotive, HVAC&R and industrial customers • Global supplier with production in Belgium, Brazil, China, Denmark, Germany, Mexico, U.K. and U.S. In addition sales offices in India and Japan.

Extruded Products has made significant portfolio adjustments as part of the segment's Mission 1000 improvement program. Three new presses have been established in emerging growth markets while presses were curtailed in Europe. In addition, one extrusion plant was sold and two fabrication sites were closed. The logistics operations and product offering for the building systems business have been restructured, mainly in Southern Europe. This included manning reductions in excess of 600 people and the closure of roughly 50 operating sites including fabrication, production, logistics and sales.

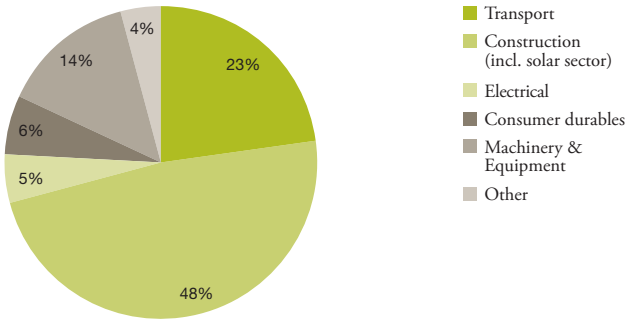
Markets, products and customers

General extrusions

We sell high-quality, custom made extrusion profiles to customers in most industries. We do not focus on low margin, standard profiles. Our local extruders work closely with customers, tailoring aluminium profiles and providing supporting services that enable them to manufacture and distribute quality products. Approximately half of our products go to the building and construction markets, with the remainder split evenly between transportation and consumer/other market segments.

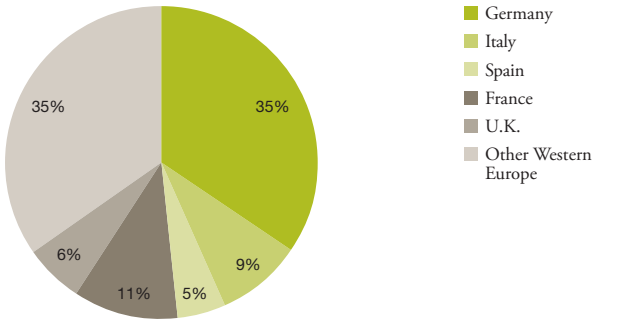
A key success factor for our European extrusion business is an extensive network of smaller, relatively independent extrusion plants, ensuring good market alignment and close contact with customers. At the same time, we actively benchmark across our operations, applying best practices with a framework of continuous improvement to ensure the efficiency of our manufacturing operations. Many of the plants in our system are characterized by modern equipment and advanced technology. We also have significant competence and experience in fabrication and surface treatment.

European extrusion consumption (total 2,777 Kmt)
By end-use



Source: CRU January 2013, Estimate 2012

European extrusion consumption (total 2,777 Kmt)
By region



Source: CRU January 2013, Estimate 2012

In the U.S., we serve highly diverse markets and provide a wide range of end-use products. We focus on serving customers and segments where close integration and special services create additional value, and have a particular competence in complex fabrication and assembly services.

In South America, we have differentiated our products in terms of quality, service and selection, in particular within the building and construction market segment. This has enabled us to earn above-average margins by offering greater value to our customers.

Building Systems
We offer extensive geographic coverage and superior products in a European market that favors solutions linked to regional building habits and local culture. Each of our brands - Technal, Wicona and Domal represents a distinct system that permit our customers to tailor offerings to their market needs, ranging from single window replacements to the complete facades for major structures such as new airports and high-rise buildings. Our solutions enable attractive designs, with a variety of functional characteristics, while efficient distribution and logistics operations ensure quick and accurate deliveries.

We are at the forefront in the development of products and solutions for energy-efficient buildings. We have research centers in France, Germany, Spain and Qatar and have participated in the design and construction of several showcase and commercial buildings. We are a market leader within this segment, a position recognized through various industry awards over the past several years.

Precision Tubing
We produce and sell specialized products used in heat transfer applications, mainly for the automotive market, which represents about 75 percent of the total market segment. We are also active in the general heat transfer applications, a growing market segment, and applications for transporting liquids and gases. We operate globally and have leading market positions in Europe, North America and South America, and a smaller, developing market position in Asia.

Energy

Industry overview

There has been a common Nordic electricity market since the late 1990s. In 2012 the mix of power generation was comprised of hydropower (54 percent), nuclear power (22 percent) and other sources, mainly thermal power (24 percent). Power generation in Norway is almost entirely based on hydropower. Total annual Nordic consumption is approximately 400 TWh.

The Nordic system price and area prices are set in day-ahead auctions at the Nord Pool Spot market. These prices provide the main reference price for financial contracts, mainly traded at an exchange operated by Nasdaq OMX. There are five price areas in Norway, four in Sweden, two in Denmark and one in Finland. The main price drivers are precipitation, temperature, fuel costs, emission allowance costs and trading with adjoining markets on the European continent. In addition, a significant increase in solar and wind power capacity in recent years in Germany in particular, has had a significant effect on price volatility, including prices in the Nordic market.

In April 2009, the EU approved an energy and climate package aimed at reducing greenhouse gas emissions, increasing the share of renewable energy and improving energy efficiency, all by 20 percent, by 2020. Implementation has and will continue to have a significant influence on energy prices and the energy and climate policy in all EU/EEA countries.

Emission trading has increased electricity prices by up to 50 percent in periods with high emission allowance cost in Europe, including the Nordic market where electricity is predominantly gene- rated by non-emitting sources. Under current allowances prices, the effect is about 15 percent. However there is an ongoing EU legislative process with the objective of increasing allowance prices. Guidelines relating to state aid from national governments for industries exposed to competition from non-EU countries (carbon leakage) were finalized by the European Commission in 2012. The guidelines are valid for the period 2013 - 2020. Actual compensation depends on measures implemented in each EU/EEA country. Implementation is well under way in Norway and Germany with draft texts corresponding closely to the EU guidelines. In Norway the compensation period is expected to begin 1 July 2013.

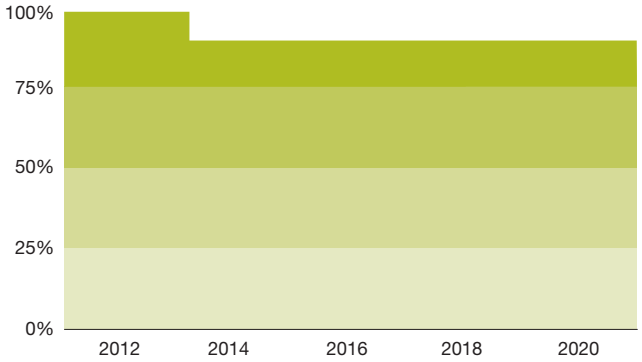
A common electricity certificate market for Norway and Sweden was established in the beginning of 2012 with the objective to support the development of new renewable generation capacity. The certificate system is designed to support an increase in annual renewable generation in the Norwegian/Swedish market of 26.4 TWh by 2020.

Strategy and targets

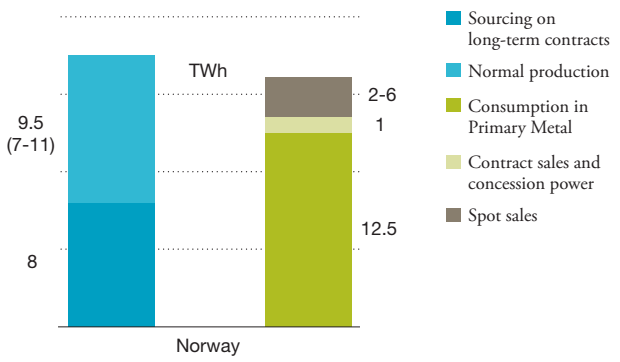
Hydro is the second-largest power plant operator in Norway, with more than 100 years of experience in hydropower production. We intend to develop the value of our Norwegian assets and to use our extensive energy competence to secure competitive energy sources for our global activities. Operational excellence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

Robust power coverage

Power coverage (%), based on consolidated production in 2012, year-end level



Generation and power sourcing



Develop our captive power capacity
Our ambition is to increase Hydro's share of captive power from renewable sources, and further explore opportunities within our existing concession areas in Norway. Securing and increasing the value of our energy assets is a key priority. The new Holsbru and Vasstøl power stations were put in operation in 2012. We are also conducting major upgrading activities that will continue over the next several years.

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

Sourcing competitive energy for our global operations
Access to competitive energy is a major success factor in our value chain. We have large energy exposures on nearly every continent. We are engaged in a number of initiatives to identify and secure competitive energy supplies for Hydro's operations. We are actively involved in promoting a responsible energy policy in the regions where we operate.

2012 targets

- Continued operational excellence and strong focus on safe operations
- Successful completion of two new power stations
- Continue positive development in the commercial activities
- Competitive energy sourcing for aluminium operations and development of strategic options in Brazil

2012 results

- Positive development in operating performance, no recordable injuries
- Completion ahead of plan on two new power stations
- Good progress on improvement projects within commercial activities
- Energy sourcing secured for aluminium operations in Neuss and Søral
- CO_2 compensation scheme supported by EU and national authorities in Germany and Norway
- Increased competence on Brazilian hydropower system

2013 targets

- Continued operational excellence and strong focus on safe operations
- Cost and improvement focus in operations and projects
- Continue maturing new equity growth options supported by electricity certificates
- Continued work on securing competitive energy sourcing for aluminium operations
- Development of strategic options and energy solutions in Brazil

Ambitions going forward
Our goal is to develop our equity power position and capitalize on our energy competence, supporting the sourcing of power to our operations on a global basis.

Operations

Hydro is a global energy player, purchasing and consuming substantial quantities of energy for its smelters, rolling mills and alumina refinery operations. We are the largest privately owned power producer in Norway, operating 19 hydroelectric power plants with a total installed capacity of approximately 1,900 MW and annual normal production of 9.5 TWh.[1)] We also purchase around 7 TWh annually under long-term contracts, mainly with the Norwegian state-owned company, Statkraft.

Cost and revenue drivers
Production volumes and market prices are strongly influenced by hydrological conditions. Seasonal factors affect both supply and demand. We have a relatively stable cost base and annual contribution to underlying EBIT, but with the potential for large quarterly revenue variations due to volatile spot volumes and prices. There is potential for optimization of our total power portfolio in the market and in cooperation with smelters.

Competitive strengths

- Substantial power coverage until 2020
- Substantial captive power through equity hydro power in Norway and natural gas fired power in Qatar
- High share of renewable energy
- Strong earnings with stable and solid cash generation

Norwegian power assets

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

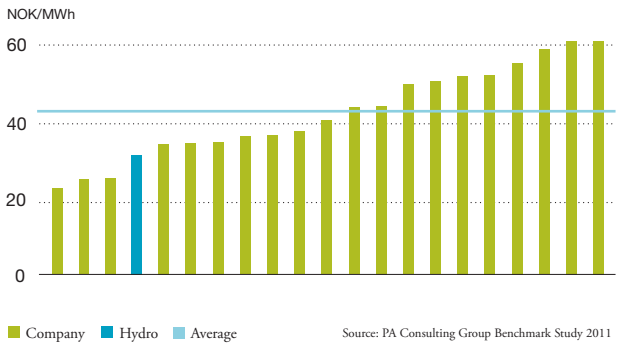
Ownership percent	Rated capacity (MW) (100%)	Normal annual production (TWh) (Hydro share)	Key characteristics / concession period
Sogn (100 %)			• Total catchment area 761 km^2
Tyin	374		• New Tyin power station opened 2004
Holsbru	48		• New Holsbru power station opened 2012
Skagen	252		• Concession expiration Tyin 2051 and Fortun 2057
Fivlemyr	2		
Herva	40		
Total Sogn		3,2	
Røldal-Suldal Kraft (95.2%)			• Total catchment area 793 km^2
Middyr	1		• Vasstøl power station opened 2012
Svandalsflona	18		• Concession expiration 2022
Novle	48		
Røldal	160		
Suldal I	170		
Suldal II	148		
Vasstøl	5		
Kvanndal	45		
Total Røldal-Suldal Kraft		2,8	
Telemark (100%) [1]			• Total catchment area 4 108 km^2
Frøystul	47		• No reversion except for Frøystul 50% 2044,
Vemork [2]	204		Moflåt and Mæl 2049
Såheim [2]	187		
Moflåt	29		
Mæl	38		
Svelgfoss	92		
Total Telemark		3,4	
Skafså (33%)			
Åmdal [2]	21		
Osen [2]	15		
Skree [2]	7		
Gausbu [2]	7		
Total Skafså		0,1	
Total		**9,5**	

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

2) No reversion.

Solid operational performance

Production cost 2011



In addition to sourcing power for our aluminium operations, Hydro sells about 1 TWh of the electricity related to concession power obligations to the local communities where the power plants are located. Power is also sold on existing contracts to our former petrochemicals business.

We optimize power production daily based on the market outlook and the hydrological situation within Hydro's water reservoirs. By utilizing the flexibility of the hydro power plants and the volatility in the spot market price, Hydro aims to realize a premium above the average spot price. Our total Norwegian power portfolio, including our own production, is balanced in the market on the Nord Pool Spot Power Exchange. Spot market sales vary significantly between dry and wet years, with an average of 3 TWh, excluding the effects of curtailed smelter capacity.

In order to secure continued robust production in the Rjukan power plants, a significant upgrade project is ongoing, which is expected to be completed in 2015. In addition, new power stations at Holsbru (Sogn) and Vasstøl (Røldal-Suldal) started operation in 2012, with a combined installed capacity of 54 MW and a normal annual production just above 100 GWh.

1) Annual hydro power production can vary by as much as 20 percent in either direction, depending on variations in hydrological conditions.

Regulation and taxation

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

Aluminium - regulation

Environmental matters

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

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

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

The European Union has a framework of environmental directives integrated into the Water Framework Directive (2000/60/EC) regarding discharges of dangerous substances to water. The directive does not, however, set specific emission limit values for specific pollutants. The implementation of the directive is done through specific legislation on bathing waters, drinking water, nitrates in ground and surface waters, and urban wastewater treatment. Based upon the information currently available regarding implementation in the Member States and Norway, Hydro's management does not believe it will have a material negative impact on its business. The European Union has also adopted Directive 2008/105/EC on environmental

quality standards in the field of water policy, which sets environmental quality standards (EQS) for surface waters for a number of priority substances and priority hazardous substances (PHS). These standards must be observed from 2015. Among the substances found on the PHS list are polycyclic aromatic hydrocarbons, which are sometimes emitted by the aluminium industry. Any emissions, discharges and losses of such substances (i.e. PHS) must cease in the EU by 2025. Hydro will develop its own implementation plan to ensure compliance with the rules.

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

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

Integrated pollution prevention and control
Under the EU Directive on Integrated Pollution Prevention and Control 1996/61/EC (the "IPPC Directive"), industrial installations require national operating permits based on best available techniques (BAT) for pollution prevention and control. The European Commission has issued a guidance document relevant for the aluminium industry: Best Practice Reference (BREF) for the Non-Ferrous Metals Industries (2001). In 2000, the Norwegian authorities established stricter emission limits for the aluminium industry in Norway from January 1, 2007, in line with the IPPC Directive. Hydro's aluminium production facilities comply with the new requirements. The IPPC Directive has been amended by Directive 2010/75/EU on Industrial Emissions (IED), while the related BREF note is in the process of being revised at the European level. The new IED requirements will be applicable from 2013. We expect Hydro to be in a position to comply with the new rules.

Climate gases
The EU Emissions Trading Directive 2003/87/EC (the ETS Directive) establishes a scheme for trading greenhouse gas emission allowances. The directive establishes an internal emission trading system (ETS) in CO2 emission allowances for the period 2005-2012. During this period, the aluminium industry has not been included in the emission-trading directive, but has been exposed to the EU emission-trading system through the effects of the law on the power generation industry and the resulting increase in power prices ("indirect effects"). The implementation of the ETS Directive, which resulted in a major pass-through of CO_2 allowance prices by producers to customers, has led to significant increases in the cost of electricity in the various member states, which again have necessitated restructuring throughout, among others, Germany's aluminium industry. This EU Directive is also relevant for the EEA, and Norway joined the EU ETS in 2008.

In April 2009, the European Union adopted a new law amending these rules (Directive 2009/29/EC) to include primary and secondary aluminium production where combustion units have a total rated thermal input exceeding 20 MW in the ETS for the period from 2013-2020 for the direct emissions of CO_2 and PFC gases from aluminium plants. Aluminium production is qualified as an industrial sector exposed to a significant risk of "carbon leakage" (i.e. risk of European operations losing market share to less carbon-efficient installations outside the EU).

This means aluminium producers would, in principle, receive a high percentage of the emission allowances they need free of charge (100 percent free allocation for smelters operating at the EU-agreed benchmark value). The free allocation of emission allowances is agreed until 2020, but the list of sectors exposed to the risk of carbon leakage will be amended in 2014. Hydro's target is to meet the benchmark values in 2013, thus minimizing the financial impact of these regulations.

Rolling operations are also covered by the new rules and will be allocated allowances free of charge based on a greenhouse gas efficiency benchmark. Hydro's extrusion operations are not covered by the ETS directive, except for their remelting activities, where Hydro expects to be close to, or within, the benchmark values in 2013.

Even more important for the aluminium industry are provisions allowing Member States to grant financial compensation for the increase in electricity prices due to ETS implementation, while observing EU state aid rules. The European Commission issued guidelines allowing for such state aid under certain conditions, in May 2012. Similar guidelines were adopted by the EFTA Surveillance Authority (ESA) in December 2012. Aluminium production qualifies as an eligible sector. Subject to approval by the European Commission, the German government has adopted legislation granting such compensation as from 1 January 2013, and the Norwegian government has announced that a Norwegian compensation scheme will be implemented as from 1 July 2013, subject to approval by ESA.

EU aluminium tariffs
In 2007, the EU reduced the import duty on non-EU imports of primary unalloyed aluminium from 6 percent to 3 percent. Aluminium metal produced in the EEA is exempt from such duty. The level of import duty for unworked, unalloyed aluminium has been reviewed in 2010, and the tariff level has been kept at 3 percent.

The World Trade Organization (WTO) round of negotiations on tariff and non-tariff barriers on industrial products may ultimately lead to further reduction, and perhaps elimination, of aluminium tariffs. Nevertheless, the WTO negotiations are not expected to have a substantial impact on Hydro in the near future.

In the absence of a WTO multilateral trade agreement, the EU has been negotiating bilateral free-trade agreements with various third countries of interest to Hydro, which will, in time, lead to the suspension of aluminium tariffs with such third countries.

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

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

Hydro is on track to implement REACH, having successfully completed the first stage in the legal process, i.e. the full registration of substances produced and/or imported above 1,000 metric tons/year by the legal deadline of November 30, 2010. The next step in the implementation of REACH is the registration of substances produced and/or imported in volumes above 100 metric tons/year by June 1, 2013, which Hydro is in a position to do.

Energy - regulation and taxation

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

Our waterfall rights and hydropower plants in Norway were acquired and developed under previous legislation that allowed for private ownership. Approximately one-third of our normal annual production in Norway - about 3 TWh per year - was acquired before concession laws were enacted and does not contain any compulsory reversion to the Norwegian state. About two-thirds of our normal annual production, or 6 TWh per year, is subject to concessions granted at the time the waterfall rights were acquired. Such power plants operate under concession terms of Norwegian state reversion, with individual concessions expiring in two main parts around 2022 and 2050. Hydro's power plants at Røldal-Suldal, with a normal annual production of 2.8 TWh, will be the first significant production facilities to revert to the Norwegian state towards the end of 2022. Reversion to the Norwegian state can be avoided if the power plants, or two-thirds or more of the shares of the entity that owns the power plants, are sold to a public entity prior to reversion.

Under the new legislation, private entities like Hydro may be granted a concession to lease a waterfall for up to 15 years.

Taxation of hydropower production in Norway
Profits from Hydro's hydropower production in Norway are subject to ordinary income tax, currently 28 percent. Revenue for ordinary income tax purposes is based on realized prices. Dams, tunnels and power stations are, for tax purposes, depreciated on a linear basis over 67 years, and machinery and generators over 40 years. However, such fixed assets are depreciated over the concession period if that is shorter. Transmission and other electrical equipment are depreciated at a 5 percent declining balance.

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

In addition, a special resource rent tax, currently at 30 percent, is imposed on hydropower production in Norway. Unlike the ordinary income tax, financial costs are not deductible against the basis for the resource rent tax. Uplift is a special deduction in the net income, computed as a percentage of the average tax basis of fixed assets (including intangible assets and goodwill) for the income year. The percentage, which is determined annually by the Ministry of Finance, essentially provides for a certain return on fixed assets above which income becomes subject to the resource rent tax. The percentage used to calculate the uplift for 2012 was 1.5 percent.

Revenue for resource rent tax is, with certain exceptions, calculated based on the plant's hourly production, multiplied by the area spot price in the corresponding hour. However, revenues from sales under certain long-term contracts are valued at contract price, and power supplied to Hydro's own industrial production facilities is valued at the price in the so-called "Statkraft's 1976 contracts" for tax purposes, which for 2012, was 263.54 NOK/MWh. As a substantial part of Hydro's hydropower production is used for our own industrial production or sold under qualifying contracts, only part of our production has been subject to spot-price taxation.

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

02: *Viability performance*

QUICK OVERVIEW

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

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

We have an integrated approach to our reporting, and our Viability performance should be seen in context with the other parts of Hydro's Annual Report 2012.

Here we first describe The Hydro Way, a set of guiding principles that govern our activities and underpin our approach to viability. Next, we report on our viability performance in 2012 according to a set of areas that capture our most important viability issues while corresponding to generally acknowledged domains of reporting.

Direct greenhouse gas emissions from Hydro's consolidated activities

Figures include historical emissions from current operations.

Viability - The Hydro Way

The Hydro Way is our approach to business. It's an approach that has lived within Hydro since 1905 and guided our development over the years.

The Hydro Way originates from our company's identity - our unique set of characteristics - and constitutes a way of doing things that differentiates us from other companies.

The Hydro Way explains how we run our business through:

- Our mission
- Our values
- Our talents
- Our operating model
- Our strategic direction

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

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

In order to ensure a uniform high standard, Hydro's global directives lay down requirements for our operations. They are compulsory for all parts of the organization and build on The Hydro Way. The directives address various issues, including strategy and business planning, economics and finance, risk management, organizational and employee development, health, safety, security and environment (HSE), as well as ethics and social responsibility.

We have based our viability reporting on The Hydro Way since 2004. This, together with risk analyses and an extensive stakeholder dialogue, has, over many years, guided us in defining the main elements of our reporting:

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

The underlying details in the reporting are based on different reporting frameworks that are important to us, including the UN Global Compact, the Global Reporting Initiative (GRI) and the International Council of Mining and Metals' 10 principles and Position Statements, and describe our alignment with these. Based on our annual business planning process and continuous stakeholder dialogue, we review the details in our reporting. Following the Vale transaction in 2011, we became the owner of substantial activities in Brazil, including bauxite mining, alumina refining and primary aluminium production. A consequence was that more reporting indicators became material to us, including GRI's Mining and Metals Supplement. Read more about our reporting principles on page 92.

Hydro has been listed on the Dow Jones Sustainability Indexes (DJSI) each year since the index series started in 1999. We are also listed on the corresponding UK index, FTSE4Good.

Dow Jones Sustainability Indexes Member 2012/13

FTSE4Good

Energy and climate change

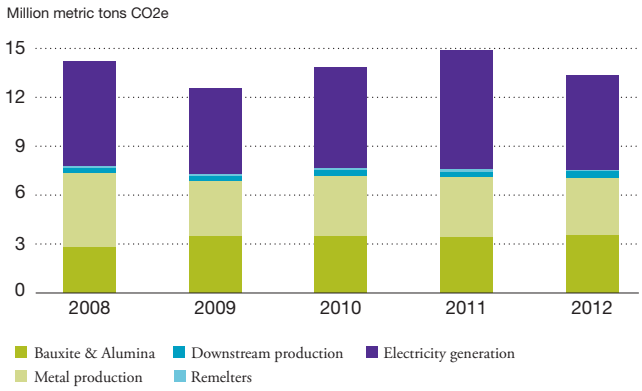
We have monitored our impact on the environment for several decades as part of a holistic approach to value creation. Our climate strategy is an integral part of our overall business strategy, including reducing the environmental impact of our production activities as well as taking advantage of business 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_2 emissions and energy consumption through the use of our products
- Increasing recycling of aluminium

Renewable energy is our preferred choice. About two-thirds of the electricity used in our primary aluminium production comes from renewable sources, and we are the second-largest hydropower producer in Norway with a normal production of 9.5 TWh per year. In 2012, we produced 10.3 TWh, see page 23.

The Qatalum aluminium plant, of which we own 50 percent, came into full production in 2011. The plant uses natural gas for electricity generation. The International Energy Agency recognizes natural gas as an important energy source that can help reduce global temperature increases. In Brazil and Australia, we use electric power from the grid. The grid in Brazil is mainly supplied by hydropower, while the grid in Australia is mainly supplied by coal power. At Alunorte and Paragominas in Brazil, the main energy sources are fuel oil, coke and diesel.

Greenhouse gas emissions from Hydro's ownership equity



Direct greenhouse gas emissions from Hydro's consolidated activities

Greenhouse gas emissions based on Hydro's ownership equity and on Hydro's consolidated activities as per December 31, 2012. For ownership equity, direct emissions from production in Bauxite & Alumina, Primary Metal, and downstream operations as well as from the remelters are comparable to Scope 1 emissions as defined by WBCSD/WRI GHG Protocol. Emissions from electricity generation are based on electricity consumption and IEA "CO_2 emissions from Fuel Consumption 2008 factors", and are comparable to Scope 2 emissions from purchased electricity. In addition, the reported emissions from electricity include emissions from Hydro's ownership equity in the Qatalum gas-fired power plant. Emissions from Hydro's consolidated activities refers to activities where Hydro has more than 50 percent ownership. For these activities, 100 percent of their emissions are included. All figures include historical emissions from current operations.

The greenhouse gas emissions from Hydro's current consolidated activities decreased by 2 percent in 2012, compared with 2011. The total emissions from our ownership equity - including indirect emissions from electricity generation - decreased by 11 percent. Mainly due to the closure of production at the Kurri Kurri smelter in Australia during 2012, our indirect emissions decreased by 20 percent. These emissions will decrease even further in 2013 as production in the Kurri Kurri smelter is now completely shut down. The restart of primary aluminium capacity in Neuss, Germany early in 2013, will to some degree counteract this effect.

Specific direct emissions increased slightly from 1.61 metric tons (mt) CO2 equivalents (CO2e) per mt primary aluminium in 2011 to 1.62 in 2012 following setbacks at Albras and Slovalco. Our long-term target of 1.52 mt CO2e per mt aluminium in 2013 will not be reached. Specific emissions in 2009, when the target was set, were 1.85 mt CO2e per mt aluminium. The 2013 target has been adjusted to 1.58 mt CO2e per mt aluminium, and we will in 2013 develop a new long-term target.

Energy efficiency is an important part of Hydro's 300 USD/mt cost improvement program (see page 35). On average, our fully-owned primary aluminium plants consumed 13.88 kWh of electricity to produce one kilogram of aluminium in 2012, which was at about the same level as the year before. Our HAL4e technology, which we are testing in full scale, has achieved an energy consumption of 12.5 kWh per kg aluminium. Our new test cells in Årdal, HALsee, are targeting an energy consumption of less than 12 kWh/kg aluminium, see page 88.

We work closely with customers to develop products that save energy and reduce emissions. Aluminium façades can lead to lower operating costs and enable buildings to produce as much energy as they consume during operation. Hydro's test center building in Bellenberg, Germany, produced more energy than it consumed in 2012. See also page 89.

Lighter cars result in fuel savings and lower emissions on the road, while lighter aluminium products and packaging reduce transport costs and emissions. Excellent barrier properties reduce the cooling needs of food products while improving durability, thus reducing food spoilage. Hydro is one of the sponsors of SAVE FOOD, an initiative from the United Nations' Food and Agriculture Organization. Our specific contribution is packaging, in which aluminium helps to conserve food more effectively so it stays fresh longer with less cooling and is better protected for transport and storage.

We are currently upgrading several of our hydropower plants in Norway to secure future stable production. The Rjukan watershed, with a total annual normal production of 3 TWh from five plants in the Måna river, is the largest upgrade with an estimated cost above NOK 800 million. The project is running according to plan and is expected to be completed in 2015. We are also working to increase production further from current assets. In 2012, the refurbishment of the power plants Holsbru and Herva and the construction of Vasstøl were completed ,and these plants are operating according to plan. We are currently working on new projects, which may start up in 2014.

We support the development of international frameworks on climate change and greenhouse gas emissions and participate actively in organizations such as the World Business Council for Sustainable Development and the International Emissions Trading Association, to provide business solutions to the climate change challenge. In addition, we work through aluminium associations to establish a level playing field for global aluminium production.

Seamless transportation

A newly developed computer system for shipping management, Seamless, could help cut logistics costs at Hydro's Norwegian smelters by several million kroner per year, while saving energy. Hydro has a number of ships in transport at all times, moving raw materials to the company's plants and finished products to the global market. Hydro accounts for about 1,200 port calls a year in Norway alone, with a number of ships in traffic to and from Brazil, Continental Europe and the U.S. Innovation Norway has supported the development due to the project's international potential and the environmental effects of optimizing logistics at ports around the world. Hydro has already been working on cost-effective transport solutions with environment benefits. One project replaces close to 5,000 truck cargos on Norwegian roads with ship traffic. This produces lower CO_2 emissions and eases road traffic.

Significant life-cycle savings

Despite their footprint in the production phase, aluminium products have a large potential for energy savings and reduction of greenhouse gas emissions in the use phase. Hydro's Rolled Products business area has in 2012 calculated to what extent its rolled aluminium products can reduce greenhouse gas emissions - by fuel-saving in light-weight cars, by protection of food or by preventing energy loss from buildings. Acknowledged studies were used as basis for these calculations, and the results indicate significant life cycle savings of greenhouse gases due to the benefits in the use phase.

2012 target

- Stabilize at above 90 percent capacity utilization in recycling

2012 results

- The electrolysis process of aluminium production emitted 1.62 mt CO2e/mt aluminium, up from 1.61 mt last year, due to a setback in Albras and Slovalco
- About 95 percent capacity utilization in recycling

2013 targets

- Stabilize at above 90 percent capacity utilization in recycling
- Emission of 1.58 mt CO2e/mt aluminium from production
- Revise Hydro's climate strategy and develop new long-term ambitions

Remelting and recycling

Aluminium can be recycled over and over again without degradation in quality. Aluminium recycling requires 95 percent less energy than primary aluminium production. Hydro is a large remelter and recycler of aluminium, with nearly 30 facilities worldwide. We remelt process scrap from our own production and from other companies. Our expertise in remelting is a good basis for further expansion.

Our ambition is to grow faster than the market in recycling and to take a strong position in this part of the value chain. We have improved utilization of our existing capacity during the last two years, and recycled almost 280,000 mt aluminium in 2012 . Due to curtailments in remelting and recycling capacity, and divestments of two remelters, growth was only about 3 percent compared to 2011. We achieved our goal for 2012 to stabilize at above 90 percent capacity utilization in our recycling facilities. This goal is retained for 2013, due to the uncertain market conditions. Another target is to develop specific post-consumed scrap projects for investment in additional capacity. We aim at developing recycling plants that serve internal and external customers with metal products produced from contaminated industrial and end-of-life scrap. Following the Sapa transactionin 2013, we will revise our long-term recycling ambitions to reflect the new portfolio.

Through a partnership with a scrap processor in Spain, Hydro is increasing the remelting capacity of post-consumer and contaminated process scrap under a conversion contract. The partnership has given us access to more than 70 new suppliers of scrap. Our 2013 ambition is to process 2000 metric tons per month through this partnership. We are investigating similar opportunities in other regions. The restart of smelter capacity in Neuss, Germany may also increase the remelting capacity.

We have developed a new blueprint for remelters that can combine clean scrap with used scrap. In addition, we plan to invest in existing remelters with a potential of up to 20 percent capacity increase. Together these new initiatives can increase our recycling capacity from 300,000 mt to about 400,000 mt. About 70 percent of the increase can come from post-consumer scrap. A new scrap portal has been developed to facilitate Hydro's access to scrap. See page 88.

In Europe, approximately 95 percent of the aluminium in automotive applications and 96 percent of the aluminium in commercial buildings is recycled at end-of-life. The recycling rate for used aluminium cans has continued to grow and is now above 66 percent for the whole of Europe. The recycling of other aluminium packaging has increased as well. It is estimated that at least 55 percent of all used aluminium packaging in Europe is being recycled today, and further growth is expected, due to additional collection activities. Hydro and our partners in the market are supporting aluminium packaging recycling initiatives throughout Europe. We team up with producers of beverage cans, drinks and food, and other interest groups and industries, to develop specific activities aimed at raising public awareness about the importance of recycling. See also page 90.

Development in solar energy

Hydro produces large volumes of frames and support structures for solar installations and is involved in all main solar technology areas:

- Photovoltaics, converting sunlight directly into electricity
- Solar-thermal installations, which use sunlight to heat water
- Concentrated solar power, focusing sunlight using mirrors and producing high-temperature heat and steam for power production

The aluminium volumes we have supplied to these segments have followed the general development in the market. Through collaboration with partners and our own research and development work, Hydro is providing the solar industry with aluminium solutions, substituting copper in solar thermal installations and replacing glass as reflective material in concentrated solar power applications. Hydro is also providing building integrated solar solutions. In 2012, we made a breakthrough in our tube design, so that our tubes can be used in the glass vacuum tube designs for solar thermal installations. Vacuum tubes have 95 percent of the solar-thermal installation market in Asia.

Hydro has minority ownership interests in NorSun, which is a Norwegian supplier of mono-crystalline silicon wafers to manufacturers of high-efficiency solar cells.

Resource management

In addition to climate change and energy consumption, our main environmental challenges are related to waste, emissions, land use and biodiversity. Hydro's bauxite mining and alumina refining activities in Pará in Brazil, acquired in 2011, include open pit mining and the handling of significant amounts of tailings and bauxite residue, also known as red mud. Biodiversity, water and waste management are consequently an important part of our agenda.

We aim at:

- Reducing our environmental footprint by improving current operations in all business areas through technology innovation and improvement programs
- Helping customers reduce their footprint by increasing recycling and engaging with and supporting customers
- Improving aluminium as a material through product and technology innovation, and improved documentation

In addition to the existing climate and recycling strategies, we have decided to prioritize four areas:

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

Operations in Brazil

Hydro set new targets for key environmental areas in 2012. Relative to a 2010 baseline we aim to reduce 60 percent of landfilled waste by 2020, excluding our bauxite and alumina activities. For water consumption in water stressed areas, we aim to reduce water footprint with 15 percent by 2020, relative to a 2010 baseline. Within 2017, our ambition is to achieve an area balance of 1:1 in opening of mine compared to reforestation.

In addition to the corporate environmental ambitions, we have performance indicators for our production plants. The indicators vary between plants due to the inherent differences between, for example, large primary aluminium production plants and small extrusion plants. They help us measure status and improvements, and enable us to concentrate on the most important issues.

2012 targets

- Carry out internal review of reforestation and wildlife program in the Paragominas mine
- Start implementation of the environmental strategy, including target setting

2012 results

- Development of new biodiversity strategy initiated for the Paragominas mine
- Biodiversity targets set for the Paragominas mine

2013 target

- Finalize biodiversity strategy for the Paragominas mine

Ambition

- Minimize our environmental footprint through the life cycle of our products
- Reduce landfilled waste by 60 percent in 2020 (excluding Bauxite & Alumina) compared to a 2010 baseline
- Reduce water footprint in water stressed areas by 15 percent in 2020, compared with a 2010 baseline
- Balance opening of mine with reforestation (1:1) within 2017. Close the reforestation gap by 2020

Ecosystems and biodiversity

We have mining and alumina refining operations in Brazil, and aluminium production plants in Brazil, Canada, Europe, Qatar and Australia. When developing new projects, we examine environmental issues ahead of time. Early detection of possible biodiversity challenges is vital.

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

We have established an aspiration toward no net loss of biodiversity. This is an area under development internationally, and we participate in the newly established Cross Sector Biodiversity Initiative (CSBI), which is a joint effort between IPIECA (the petroleum industry) and ICMM (the mining industry). The Equator Principle Association has also decided to join CSBI.

Land management and reforestation

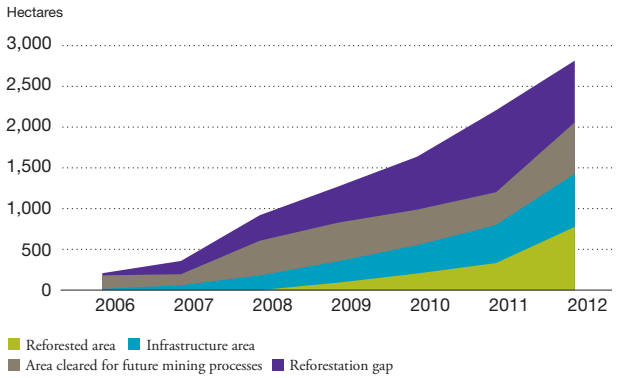
Hydro's bauxite mining involves removing topsoil and overburden by machinery to extract the bauxite deposits below. The overburden at Paragominas is normally eight to ten meters thick. As soon as the bauxite has been extracted from one area, the area is refilled with overburden and topsoil and the process for rehabilitation can begin. Bauxite extraction started in Paragominas in 2006. The reforestation program started in 2009 and will continue beyond 2040 in the present area. It will still take a few years to achieve the desired balance between land impacted by mining operations and land rehabilitated. We expect the present tailings dam to be full within 2017, and the work has started to optimize the closure and reforestation of these tailings.

The Paragominas mine is located in the municipality of Paragominas, in an area that is normally recognized as the deforestation belt around the central Amazon River. In terms of land use, the municipality of Paragominas has seen, over a period of almost 20 years, more than 30 percent reduction in its forest cover. Still, there are enclaves of rain forest that are quite intact, and in recent years the municipality has been in the forefront in Brazil in halting illegal and uncontrolled logging. The mining area had been exposed to selective logging and clear cutting of forest for development of subsequent pasture land, before the mine was established.

In total 609 hectares of land were affected during 2012 compared with 853 hectares in 2011. Almost 5,300 hectares have been affected since the start of the mining operations in 2006, of which 776 hectares have been reforested. In 2012, we reforested 444 hectares compared with 128 hectares in 2011.

A reforestation assessment performed by Hydro in 2011 reviewed areas close to the mine which have been exposed to selective logging. The study found that the main structure of the forest ecosystems was still in place, even though most of the commercially interesting trees had been logged. We have identified improvement potential related to reforestation and wildlife management at Paragominas, and in 2012 a biodiversity strategy for Paragominas was initiated with the objective to establish an overall strategy including short, medium and long-term targets. The strategy is planned to be finalized in 2013. The most important targets are already set - to achieve an area balance of 1:1 in opening of mine compared to reforestation by 2017, and to close the reforestation gap within 2020.

Land use and reforestation – Paragominas



In addition to the land use shown in the graph, the bauxite pipeline and the corresponding electricity transmission line from Paragominas to Alunorte occupies about 1300 hectares, the tailing dams 840 hectares and additional infrastructure 280 hectares. Including these, almost 5,300 hectares are affected by Hydro's mining operations.

In 2012, we signed a letter of intent with the University of Oslo to create a research program connected to our mining operations. The aim is to generate knowledge that can strengthen Hydro's ability to preserve the natural biodiversity of the areas where we mine bauxite. Together with MRN (in which Hydro holds a 5 percent share) and Alcoa's Juruti mine, Hydro has established a forum for exchange of best practice for reforestation. Starting in 2013 Hydro in Paragominas will use the so called nucleation method that has been tested out by Alcoa in Juruti for several years and which MRN also has tested. Top soil is unevenly distributed to simulate natural landscape and trap rainwater. Piles of cut wood are distributed to increase biodiversity - creating shelters for animals and improving growing conditions for some plant species. The ambition is to establish a forest system of the same structure that is typical in the pristine forest in the areas. The method has been approved for testing by the federal environmental authorities IBAMA as well as by SEMA, the environmental authorities of Pará.

In connection with its exploration activities, Hydro was in 2011 alleged to have been involved in illegal logging in a preservation area in Minas Gerais in Brazil. In 2012, Hydro agreed on a settlement that concluded the civil investigation. Under the settlement, Hydro has paid 3000 BRL to a NGO involved in forest preservation.

Green Municipalities

Launched in March 2011 by the Pará government in Brazil, the Green Municipalities program is based on the successful project developed originally in Paragominas, a city which had experienced environmental challenges over the years.

By 2008, Paragominas ranked among the most critical Brazilian municipalities in terms of deforestation. In order to avoid penalties from the federal government, the municipality made a strong effort involving the main social actors in a commitment to improve environmental performance. Due to the initiative, Paragominas was the first municipality in Brazil to leave the Brazilian deforestation black-list.

In order to become a "green municipality," it is necessary to reduce deforestation, assure compliance with social and environmental legislation, foster the recovery of degraded areas, make better use of areas already opened and properly manage the native forest. Hydro cooperates with the Green Municipalities and the environmental organization Imazon to train 90 technicians that will work on the program.

Off the critical deforestation list

"Six, seven years ago, the general picture was of severe deforestation in Paragominas. In 2007, deforestation was in the order of 175 km2 per year, which caused the municipality to be included in the critical deforestation list of the Ministry of the Environment (MMA) in 2008. Due to local initiatives, including the Green Municipalities Project, this does not happen anymore, and Paragominas was the first municipality in the Amazon to come off the list in March 2010. Currently, deforestation in the municipality is in the order of 3 km2 per year."

Paulo Amaral, Senior researcher
Imazon

Read full interview at www.hydro.com/reporting2012

Water management

Enough clean water is a challenge in some of the areas where Hydro operates. Local initiatives show that with simple measures, substantial water savings are achievable. The systematic mapping of our water situation in 2012 showed that about three percent of our overall water input came from water-stressed areas, with regard to annual renewable water supply (according to the definition used by WBCSD). The water stressed areas where we have our consolidated activities are mainly located in Germany and southern Europe, where water supply is well-regulated. Qatalum in Qatar gets water from public water works, produced by desalination. Sea water is used for wet cooling towers at the power plant.

Although the Amazon is recognized for its abundance of water, we have observed over the last decades that parts of the area have had repeated periods of unusually low or high rainfall. In 2012 we initiated a study to evaluate the water balance of Alunorte and the planned CAP alumina refinery following an expansion of the Paragominas mine and construction of CAP. TOday, Alunorte gets an important part of its water through the bauxite slurry that is transported from Paragominas through a pipeline.

Opticap is a Norwegian study aiming to increase knowledge about materials and methods that are appropriate to cover polluted seabed to reduce migration of such pollution. Polluted areas have been covered by thin layer capping of different materials to study the effects on dioxine leakage to water and on the bottom fauna and other ecological systems. Hydro has participated in the study, including areas in the Grenland Fjords in Norway.

We regularly follow up the impact on aquatic life in rivers near our hydropower plants. In addition, we are following up a rehabilitation project of the Måna River in Rjukan, Norway. In 2011, this included improvement of fish habitats. We plan to start similar projects in the Årdal river and Fortun river during the summer of 2013. All projects also include increased accessibility to the riversides for the local communities.

According to requirements in our hydropower concessions, we finance operation of two fish nurseries in Sogn in Norway. Trout are bred every year, and approximately 100,000 fish fries are stocked in the small lakes in the concession area. This mitigates the impacts from the regulation of the water going to the power plants. In the Fortun River we also stock salmon fries every year in order to maintain the population.

Minimizing waste

Our goal is to minimize the amount of waste produced and then reuse or recycle it. This is beneficial, both environmentally and economically.

Tailings and bauxite residue

Tailings from bauxite extraction consist of mineral rejects from the extraction process mixed with water. The tailings at Paragominas are stored in dedicated tailing ponds, where the particles settle. Separated water is lead to a clarification dam before it is 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 meets the requirements set by the authorities.

The dams of the tailing ponds are being raised and this work will be finalized in 2014. We expect thecurrent tailing ponds to be full by 2017, and the area will then be reforested. We are evaluating a new tailing pond at a plateau to secure natural drainage. The total amount of tailings in 2012 was 4.2 million metric tons (mt), down from 4.4 million mt in 2011. The decrease was mainly due to improved bauxite extraction. The Paragominas' mine produced 9.2 million mt bauxite in 2012 compared to 8.2 million mt in 2011.

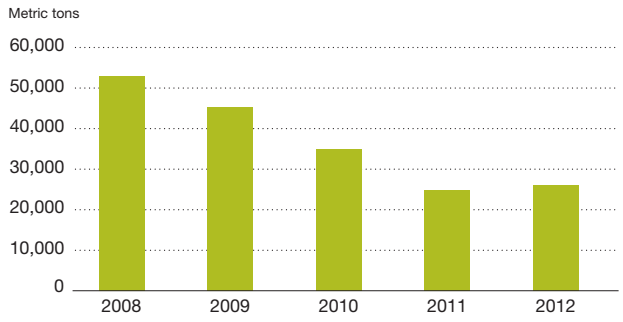
Bauxite residue, also known as red mud, is a by-product of the alumina refining process. Alunorte uses the Bayer process, which includes the use of caustic soda. The residue is washed with water to lower the alkalinity and recover caustic soda to be reused in the process. The residue is dry-stacked, which means it is transformed into a clay-like solid with a low moisture content. Alunorte is in the process of evaluating conversion to pressure filtration to reduce moisture further. The bauxite residue deposit at Alunorte was extended in 2012. In total, 6.1 million mt (containing 35 percent humidity) was disposed in 2012 compared to 6.4 million mt in 2011. The reduction was mainly due to improved bauxite quality giving a better yield of alumina. When the deposits are full, we have a plan for replanting of the area.

Bauxite residue from Alunorte is being tested as a raw material for bricks and paving stones, but even with an optimistic market estimate, this production will only use a small fraction of the total residue. In 2012, we started discussions with the Agency of Industry, Commerce and Mining in the state of Pará to develop alternative use of bauxite residue.

After the overflow of storm water from the bauxite residue deposits at Alunorte in 2009, corrective actions were taken, including strengthening the drainage system and improving the surveillance of the water treatment facility. There are legal issues pending following the incident. In the second quarter of 2012, a total of 5,343 claims were filed for a local small claims court related to the overflow. Only 37 of the claims had been served to Alunorte by the end of 2012, and it is not clear when the remaining claims will be served or hearings will take place. In 2012, a stakeholder analysis was carried out comprising for instance stakeholders impacted by Hydro's operations in Barcarena, Alunorte and Albras. Following the analysis a stakeholder dialogue and engagement plan was established as we see that openness, transparency and dialogue is of paramount importance.

Spent potlining

Spent potlining



Figures include historic SPL production from current operations.

Spent potlining (SPL) from the reduction cells used in primary aluminium production is defined as hazardous waste. In 2012, we generated 25,941 metric tons of SPL, which was up from 24,804 mt in 2011. The production of SPL varies with the relining of smelter cells which is normally done every 4-7 years for established smelters. New plants will get a relining peak at the same interval after start-up. We expect an increase in the SPL production from consolidated smelters next year and from part-owned Qatalum some years later.

Qatalum is aiming at "no-SPL-to-landfill", together with other aluminium plants in the Arabian Gulf, with a view to using SPL in the cement industry. Albras delivers all SPL to the cement industry.

Good for the environment, good for the bottom line
SPL (spent pot lining) and carbon waste from anode production is a substantial part of the hazardous waste generated in Hydro. In 2011 we established a project to find environmentally sound and commercially viable alternatives to landfilling. This work has led to two new delivery contracts where our waste is used as a resource in industrial production. Since the summer of 2012 anode waste is used by Norcem cement plant in Brevik, Norway (part of Heidelberg Cement) and from 2013 the carbon fraction of SPL will be sent to Rockwool in Germany. In both cases the carbon material from Hydro will be used as a fuel in the production process and high temperature incineration ensures destruction of hazardous components. The delivery to Norcem has a three year timeframe and the Rockwool agreement will be tested in 2013 and has an option to be continued further. Heidelberg and Hydro have also signed an agreement to develop alternatives to increase the use of aluminium process waste in cement production.

These agreements are examples of efficient resource use that is sound for the environment by substituting fuel or raw materials while saving landfill costs. The Rockwool delivery depends on export approval from the Norwegian Climate and Pollution Agency.

Emissions

We have achieved significant emission reductions over the years. The major achievements are related to greenhouse gases as well as dust and particle emissions. The closure of our former Søderberg lines has reduced plant emissions of PAH, greenhouse gases, dust, particles and fluoride. In the last five years, our emissions of fluoride and PAH to air, per metric ton of primary aluminium produced, have decreased by 22 and 61 percent, respectively. Hydro's SO_2 emissions increased by 4 percent to 30,925 mt in 2012, while NO_x emissions went down 4 percent to 8,579 mt.

As a response to neighborhood claims regarding odor, we initiated a dialogue with local stakeholders on a regular base at the industrial site in Grevenbroich, Germany. As a result, an internal project "Odor emissions in Barrenstein" was set up and a Euro 1.2 million odor reduction investment was made in 2012, which in addition saves energy. Since the start of the initiative in 2011, complaints have been reduced by about 70 percent.

Hydro registered a total of seven minor permit breaches in 2012 compared to four breaches in 2011. In 2012, Hydro paid two environmental fines for incidents dating back to before 2012. Hydro's St. Augustine plant in Florida resolved claims by the United States Environmental Protection Agency (EPA) of alleged noncompliance with certain regulatory and permit-based requirements in 2012. Through a "stipulation of settlement" Hydro paid USD 310,000. Hydro in Høyanger paid NOK 100,000 in a fine after accidentally losing a bag with filter dust into the sea during discharging.

Product stewardship

Hydro is in dialogue with customers and other stakeholders when it comes to the environmental impact of our processes and products. We perform life-cycle assessments (LCAs) of all major product groups to identify improvement potential, perform benchmarking and assist our product developers and customers regarding environmental footprint considerations. We also continuously assess other aspects such as energy and material consumption, toxicity and recyclability.

Since 2009 Hydro has cooperated with the Norwegian University of Science and Technology (NTNU) to further develop material flow analysis models (MFA) for global and regional aluminium flows. The work is mainly concentrated about aluminium in-use stocks and their long-term contribution as raw materials for new aluminium products.

Over the past two decades, Hydro and other aluminium companies have developed a pan-European network of national initiatives to promote and recycle aluminium packaging. Many of these national activities are emphasizing education and have developed projects with primary and secondary schools and universities to stimulate the next generation to make their contribution to a better environment. An example is the "Every Can Counts" program launched by Hydro and other aluminium companies in cooperation with the can making industry. Every Can Counts is an awareness program aimed at improving recycling of cans consumed whilst 'on the go', by encouraging people to continue the recycling habit , now well established at home, whilst they are out and about, in the workplace, on campus and at community events. The concept was first developed in the UK and later introduced in France, Austria, Romania, Hungary, and Ireland. With games and humor the initiative to recycle beverage cans is out and about in Austria as "Jede Dose zählt" - raising awareness about the importance of beverage can recycling in a fun way: "Drink, crush and collect" is the slogan. In Norway, we cooperate with among others

World Wildlife Fund and Ikea to learn children and their families about the importance of aluminium recycling through collecting empty tea lights.

In January 2013, Hydro joined the Aluminium Stewardship Initiative (ASI), a multistakeholder process aiming at setting standards to improve environmental, social and governance performance across the aluminium value chain.

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

Hydro must show responsibility

"Aluminium has properties that are important for the renewable society of the future. But there must be even more commitment to this. Companies like Hydro must show responsibility at all stages of the metal's life cycle. Good recycling solutions will become even more critical in the years to come. Industry knowledge will play an important role in this area as well."

Nina Jensen, Secretary General
World Wildlife Fund Norway
Read full interview at www.hydro.com/reporting2012

Integrity and human rights

We have zero tolerance of corruption and human rights violations. If non-conformities are registered, our policy is first to correct, then demonstrate openness and learn from negative experiences.

Hydro's overall CSR strategy is built upon four pillars:

- Integrity and anti-corruption
- Community and stakeholder engagement
- Human rights
- Supply chain and product stewardship

The annual business planning process and inclusion of key performance indicator actions are used to implement the integrity program as well as other corporate responsibility topics. Requirements have been drawn up regarding how corporate responsibility should be taken into account in business development, investment programs and during the execution of projects. A mapping tool for non-financial compliance risk is used for all business areas in the annual business planning process to identify risks and develop mitigating actions. Business plan progress is discussed in the quarterly follow-up meetings that are mandatory for all business areas in Hydro.

The AlertLine, replacing Hydro's former whistleblower channel, was launched in August 2012. Employees may report breaches or perceived breaches of Hydro's requirements through the channel. The AlertLine is served by an external company, and all permanent and temporary employees as well as contractor employees can report their concerns at any time and in their own language through toll-free phone numbers, Hydro's intranet or the Internet. In addition, information has been distributed through posters on notice boards at Hydro locations worldwide. The aim is to make it easier for employees to report their concerns related to behavior that may conflict with Hydro's values or threaten our reputation. It is possible to report anonymously. The number of reported cases has increased after the launch of the AlertLine. In total 45 cases were reported through the whistleblower channel and the AlertLine in 2012. Most cases are related to management behavior and HSE. Also a few cases related to contract management were reported and two cases of alleged discrimination. All reported cases were investigated.

Together with anti-corruption and basic employee rights, information about Hydro's whistleblowing procedure is also given through "You and Hydro" - a brochure and an e-learning program available to all employees in 12 languages.

Every quarter the head of Hydro's internal audit informs the board audit committee and the corporate management about matters reported through the AlertLine. The head of internal audit reports to the company's board of directors through the board audit committee. Hydro's internal audit was strengthened in 2012 by a hub in Brazil.

In Hydro, compliance is defined as adherence with external laws and regulations as well as internal steering documents. The compliance system comprises measures to reduce the risk of non-compliance. These measures are grouped into four categories: prevention, detection, reporting and responding. Internal audits are used as a tool for improvements.

Compliance is a line responsibility in Hydro. The corporate staffs Legal and HSE & CSR have a support and advisory role for non-financial compliance. A compliance officer function for Hydro has been established to coordinate processes and activities within the non-financial compliance system. Our Extruded Products business area implemented a compliance policy in March 2012, covering common control mechanisms for non-financial compliance in all their operations. For financial compliance in Hydro, see page 140.

Combating corruption and respecting human rights are both included in our supplier requirements, see page 73.

Against the things I see must be argued

"Since the beginning, people from Hydro have sought to relate with us in a friendly, transparent way. They sought us to solve the existing problems. Hydro is presenting itself as a true partner."

However, the Quilombola's leader underlines that the good behavior needs to continue throughout time: "I always say that while the company maintains a good relationship with us there's no reason for opposition or fight. I will be against the things I see must be argued."

Raimunda Gomes de Morais,
President of São Bernardino Association
(Quilombola leader)
Read full interview at www.hydro.com/reporting2012

Handling human rights issues well, but still more to be done

"We recommend that Hydro strengthens its position and internal overview of alternative means of collective association and bargaining in countries where collective association and/or bargaining is curtailed in either law or practice".

Allan Lerberg Jørgensen, Department director,
The Danish Institute for Human Rights

2012 targets

- No instances of corruption
- No instances of human rights violations
- Development of risk analyses and action plan for human rights

2012 results

- No known instances of corruption
- No known instances of human rights violations in Hydro
- Risk analyses and action plan for human rights developed

2013 targets

- No instances of corruption
- No instances of human rights violations
- Development of grievance mechanisms for Hydro's activities in Barcarena, Brazil, as a pilot for a Hydro wide solution
- Revision of Hydro's Integrity Program
- Training in Code of Conduct and Integrity Program completed for all level 1, 2 and 3 leaders

Ambition
All critical suppliers should comply with our supplier standards. All our units should comply with our anti-corruption, human and labor rights standards, and report their performance. Our ambition is to be a preferred partner worldwide because of our responsible business operations.

Combating corruption

Hydro's Code of Conduct is approved by the board of directors and was last updated in December 2012. The Hydro Integrity Program is an important tool to prevent corruption and human rights violations connected to our activities. The program includes risk mapping, tools and training and will be updated in 2013 following the update of Hydro's Code of Conduct. In 2012, about 220 key employees were trained in the program. Training includes dilemma discussions on combating corruption and promoting human rights. About 5,500 employees have participated in the training program since 2006, including employees from joint-venture companies. More than 95 percent of the employees in Bauxite & Alumina have been through basic parts of the integrity program as part of their Hydro Fundamentals training. In 2012, about 3,200 employees participated in training related to compliance issues within integrity and CSR, and almost 300 within competition law.

A new procedure covering integrity risk management of Hydro's partners, including agents and consultants, will be established in 2013, while the corporate directive Hydro's Social Responsibility was updated in 2012.

A fraud awareness and detection questionnaire forms part of internal audit activities where relevant. Our accounting centers are trained to ask relevant questions to reveal possible fraud or other questionable accounts.

During 2012, close to 200 potential suppliers, customers and other business relations were screened against convictions on corruption, finance of terror, money-laundering, politically exposed persons and export restrictions or sanctions. Through the online screening process, we identified a number of findings like past participating in corrupt practices, price fixing involvement of politically exposed persons as well as links to potential violation of export restrictions. All such findings led to investigations before proceeding further. In addition, we performe daily online screening of vendors and suppliers, please see page 73.

More comprehensive integrity due diligence has been performed for several potential business partners including suppliers and agents.

Respecting human rights

We support the principle of freedom of association and collective bargaining, and have 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 organization, in minority-owned companies and with our suppliers.

It is essential for us to avoid the use of child labor and forced labor, both in Hydro's activities and in those of our suppliers and partners. We are concerned about fundamental labor rights, such as freedom of association, minimum wage requirements and the regulation of working hours. We do not tolerate discrimination on the basis of gender, race, national or ethnic origin, cultural background, social group, disability, sexual orientation, marital status, age or political opinion. See page 81.

Almost all our production sites in Europe, Brazil and Argentina - representing 89 percent of our employees - are unionized, which was also the case at the Kurri Kurri smelter in Australia where the production was closed down in 2012, see page 76. About 80 percent of our employees in Norway are union members, and a large proportion of employees in Brazil and Germany, too, the majority in Germany belonging to IG Metall and IG Bergbau, Chemie, Energie. See also page 77.

Conflicts between Hydro and the employees resulted in minor strikes only during 2012. None of these exceeded a duration of one week and none resulted in lockouts.

In countries where the right to form trade unions is restricted, we try to find alternative forums to uphold the rights of employees to influence their work situation, like in Qatar and China. Since 2011, Hydro has had an international frame agreement with four unions, aiming to secure the development of good working relations in Hydro's worldwide operations. In January 2012, we signed a new corporate agreement with the main unions regarding the European Works Council.

In 2012 the Danish Institute of Human Rights supported Hydro in completing a human rights risk mapping and gap analysis of our worldwide activities. Identified gaps were related to e.g. lack of human rights due diligence being part of Hydro's formal governance system, lack of formal, company-wide grievance mechanisms open to all stakeholders and addressing issues on unionizing and collective bargaining in countries where free trade unions are not permitted. Most gaps were closed during 2012. In 2013 we aim at developing a pilot grievance mechanism for our activities in Barcarena, Brazil (Albras, Alunorte and the alumina refinery project CAP).

Human rights information has been communicated to the board of directors, the corporate management board, all business area management teams, and other relevant parties including union representatives.

It is necessary to employ security staff in some areas for the protection of personnel, property and business activities. No negative incidents were registered in connection with our use of security staff in 2012, see page 86.

Since 2011 Hydro has been operator of the Paragominas bauxite pipeline that crosses areas inhabited by a traditional Quilombola group in Jambuaçu Territory in Brazil. Hydro has established contact with Quilombola representatives and enhanced dedicated resources to improve and follow up the dialog. We have committed to invest BRL 650,000 (about NOK 2.2 million) in a project - Casa Familiar Rural - aiming at stimulating income generation by enhancing education, acquiring land, etc. In 2012, BRL 550,000 was spent, while the remaining will be spent in 2013. In 2012 we entered into a partnership with the Tome-Açu Mixed Agricultural Cooperative and National Service of Rural Learning. Hydro will invest BRL 2,8 million (about NOK 8.4 million) until 2015 in projects of income generation and community organization, of which BRL 800,000 was spent in 2012. Most of this investment will take place on the Quilombolas' territory.

Following the construction of the pipeline, rehabilitation work was required, especially connected to roads and bridges. In certain instances, Hydro's contractor inflicted some additional damage to vegetation during the rehabilitation work. Compensation has been offered to the affected families. There are still unresolved issues related to the definition of stakeholders directly impacted by the laying of the pipeline and compensatory or mitigating measures which could have consequences for Hydro's mining operation in Paragominas going forward.

Maintaining the rights of indigenous peoples is important to the part-owned operation Alouette in Canada. Local management is handling the dialog with the indigenous representatives, and we are working through the board of directors to follow this up.

Relocation of people is sometimes necessary in connection with our operations. No relocations took place in relation to Hydro's activities in 2012, but actions were initiated to relocate illegal settlements in the Barcarena area.

There is still one legal dispute between five of the 120 relocated families and the alumina refinery project CAP. These families claim to have the right to remain on the land that is occupied by CAP. However, after a preliminary analysis, the Trial Court denied their such request, which was confirmed by the Court of Appeals.

Corporate responsibility in the supply chain

Hydro has more than 18,000 suppliers globally. The majority are situated close to our production facilities. Our supplier requirements regarding corporate responsibility form an integral part of all stages of the procurement process. They cover environmental matters, human rights, anti-corruption, working conditions and the work environment.

Implementation of our CSR requirements is risk based and takes contractual value and country risk into consideration. The requirements shall apply to all new contracts with a value above USD 3 million. They also apply to all new contracts, irrespective of value, which are conducted in high-risk countries or which have high strategic importance. CSR requirements also apply when existing suppliers are re-qualified.

The CSR requirements are included in the contract itself or in a separate declaration that must be signed by the supplier. The contracts include auditing rights and the contractors' responsibility for implementing CSR requirements towards its subcontractors.

The number of suppliers for which Hydro accounts for a major part of turnover, is low. Our estimate is that we represent a major client for less than 10 percent of our critical tier-one suppliers.

The business areas have different systems in place - based on their different business needs - to comply with the corporate requirements. For example, in our Primary Metal business, a supplier management system provides a formal risk assessment in accordance with Hydro's corporate directives and ISO requirements. This also includes a process for identifying critical suppliers, based on corruption and human rights risks. The screening has so far identified more than 50 high risk suppliers, representing some more producers. For Rolled Products, we have developed procurement risk management guidelines and our Metal Markets' business has a similar risk process. Energy follows established procurement guidelines in their sourcing of goods

and services. Bauxite & Alumina (B&A) developed new procurement policies in 2012, including a CSR matrix for risk based segmentation of their suppliers. The matrix considers product risk, country risk (Transparency International and Maplecroft) and CSR supply chain risk parameters as defined at a corporate level. The aim is to classify all suppliers in B&A. Implementation will start in 2013.

All suppliers registered in our SAP system are checked daily against the UN sanction list for e.g. anti-terror and money laundering. This includes all consolidated activities except Extruded Products, where not all units use SAP. Our Primary Metal business is in addition screening suppliers based on corruption and human rights risks.

Audits and site visits to suppliers are performed by Hydro personnel based on risk analysis. Audit findings and corrective action plans are reported and handed over to the visited plant. Proposed corrective actions are then checked in connection with the next audit performed at the site in question.

In 2012, we entered into dialog with certain suppliers and customers about possible inconsistencies with certain Hydro standards. In most cases the issues were solved in a satisfactory way. Hydro is a member of REDES, a supplier development network developed by the Industry Federation of Pará, Brazil with support of the state government.

In addition to Hydro's 5 percent ownership stake in MRN in Brazil, we have a long-term off-take agreement related to Vale's share of MRN's production. This makes MRN a large supplier of bauxite to Hydro. See page 66 and 83 for more information about MRN.

Voluntary commitments

Our most important voluntary commitments are our support of the principles in the Universal Declaration of Human Rights and the UN Global Compact. We also support the OECD's Guidelines for Multinational Enterprises, Transparency International's Business Principles for Countering Bribery, the World Economic Forum's Partnering Against Corruption Initiative, and the Extractive Industries Transparency Initiative (EITI). We voluntarily report payments to host governments related to exploration and extraction activities for bauxite, as well as operations for the production of aluminium oxide, based on EITI's principles. In addition, we cooperate with Transparency International and Amnesty International. In 2011, we became a member of the International Council on Mining and Metals (ICMM). Through this membership we are committed to following ICMM's 10 principles and Position Statements. Hydro is also a member of the International Aluminium Institute and the European Aluminium Association, and adheres to their voluntary reporting for the member companies.

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

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

NOK million	**2012**	2011	2010	2009	2008
Australia	**-**	-	-	(0.7)	0.4
Brazil	**80**	48	98	160	139

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 Extractive Industries Transparency Initiative (EITI).

Community impact

Ensuring responsible conduct in relation to society at large is an important element throughout all phases of our activities. The construction of new plants, acquisitions and divestments as well as closing down capacity, are particularly vulnerable in this respect. Our long experience with responsible restructuring has been severely tested in recent years.

Also in 2012 significant restructuring took place in Hydro, including closure of the production in the Kurri Kurri smelter in Australia and the extrusion plant in Monett, Missouri. We secured power supply for the part-owned aluminium smelter Søral in Norway, and started planning for restarting curtailed capacity at the smelter in Neuss, Germany. In October we announced the planned merger of Hydro's Extruded Products with Orkla's Sapa, aiming to create the world's leading aluminium solutions provider.

2012 targets

- Establish CSR action plan for community investments in Pará, Brazil
- Carry out restructuring processes with respect for employees and their communities

2012 results

- Community engagement plan for Pará, Brazil, was established for roll-out in 2013
- Restructuring processes were carried out in cooperation with employees and their communities

2013 targets

- Develop grievance mechanisms for Hydro's activities in Barcarena, Brazil as a pilot for a corporate-wide solution
- Carry out restructuring processes in cooperation with employees and their communities

Ambition
We want to be a preferred partner worldwide due to our responsible business operations.

"Upsetting decision"

"Even though the financial climate may have made the outcome inevitable, the decision by Hydro to fully close the Kurri Kurri smelter was particularly upsetting following the remarkable effort and hard work from the employees, the union and local management to address the fixed cost and efficiency issues."

Paul O'Brien, site senior delegate,
The Australian Workers' Union
Read full interview at www.hydro.com/reporting2012

"We did our best"

"I can honestly say I don't hold any ill feeling towards Hydro Corporate over the closure of the smelter. It's only common sense that says you can't keep running a business that is losing money and trying to keep shareholders happy at the same time. I can also say from a worker's point of view that we did our best to stay open!"

Trevor Morris, delegate,
The Australian Workers' Union
Read full interview at www.hydro.com/reporting2012

Continued restructuring

Following a consultation process with the local employees, Hydro announced in January 2012 that one of its three production lines in the Kurri Kurri aluminium plant in Australia would be closed down. In June it was decided to close down all production. All together 550 employees were affected. A social impact assessment was carried out mapping direct and indirect effects of the closure and contributing to an action plan for reemployment of redundant workers. Please see more information at page 75.

Hydro's casthouse for primary foundry alloys in Årdal, Norway, with 53 positions was closed down in 2012. All liquid metal from the electrolysis will be used for sheet ingots and thus increasing such production. No permanent employees have been laid off following the closure, and they have been secured permanent or temporary jobs in other parts of the plant.

At our primary metal plant Rheinwerk in Neuss, Germany, production capacity has been temporarily reduced from 235,000 metric tons to 50,000 mt since 2009 , affecting 700 employees who consequently have had different levels of reduced working hours. Competence development and the inclusion of employees in different meeting places have been important means to keep up the spirit during difficult times. Following the signing of a five-year electric power supply agreement and the German implementation of CO_2 compensation under the EU guidelines, we restarted capacity early in 2013 with the intention to step up production to 150,000 mt. Increased primary production will also result in increased remelting capacity at the plant. Rheinwerk was internally transferred from Primary Aluminium to Rolled Products early in 2012 to link it closer to Hydro's other activities in the vicinity (Grevenbroich and part-owned Alunorf).

In October 2012, part-owned Søral in Husnes, Norway, signed a long-term power supply contract, securing continued operation of the plant. Half of Søral's production has been temporarily stopped since 2009, and the renewed power sourcing will not lead to an immediate increase in the plant's production. At full production the plant employs around 340 people. As the plant currently is operating only one out of two lines, 250 people are working at the plant. To minimize the number of temporarily laid-off employees, some employees have been utilized as substitutes and in investment projects.

The oldest production line in Sunndal, Norway, was temporarily closed in May 2009. An annual capacity of 35,000 mt was restarted in 2012 in addition to 15,000 mt in 2011. Following the restart and attrition of employees, the plant avoided temporary or permanent lay-offs in 2012.

Several of our primary aluminium plants have expiring power contracts, which may result in operational adjustments in the coming years.

Shutting down with respect
One of three pot lines at Hydro's aluminium plant at Kurri Kurri, Australia, was curtailed in January 2012, reducing the number of employees from 550 to 350. Three months later, new consultation with the plant's workforce was initiated. Power costs, unfavorable currency exchange rates and poor market prices for aluminium all contributed to losses, with little or no prospect for improvement in a reasonable time frame. The tough decision to close down all production immediately affected 340 employees. The response from the workforce to the closure announcement, and the loss of their jobs, was muted. There were a few angry words regarding the communication approach, but aside from that, the workforce reacted with disappointment and calm resignation. Hydro entered into consultation with the union on how the closure process should be managed. All employees were offered different services including a job market day, financial advice and counseling. Of the originally 550 employees at Kurri Kurri, 440 had secured new jobs or were retired by the end of 2012.

A message from the shop floor
At the Hydro Summit in 2012 - gathering Hydro's top 200 leaders - a representative stepped forward on behalf of the employees of Portalex, Hydro's former extrusion plant in Portugal. He approached Hydro's President and CEO Svein Richard Brandtzæg and said that he had a message from the shop floor of Portalex. He then handed over the well-used Hydro flag from the gate at Portalex and told about the gratitude of himself and other employees that Hydro had found good new owners for them - instead of closing the plant down as they had feared.

Hydro's extrusion plant in Monett, Missouri, with 140 employees, was closed down in October 2012. Some of the production was moved to the company's extrusion plant in Phoenix, Arizona, while the remelter in Monett, with about 60 employees, will continue. New production in Phoenix is expected to increase the number of employees by 45, or almost 25 percent.

The extrusion plant at Karmøy was closed in March 2012 as part of our work to restructure the production of aluminium profiles in Norway. This directly affected 94 employees. The entire production and about 40 of the positions were transferred to Magnor and Raufoss, strengthening operations at the two sites. Overall, our Norwegian extrusion business has 380 employees. The extrusion plant in Tisice-Chrást in the Czech Republic was closed down in January 2012, affecting almost 50 employees. Its equipment and activities were moved to Hydro's Chrzanów plant in Poland.

In August 2012, Hydro divested its extrusion plant Portalex in Portugal to Bavaria Industriekapital AG. The plant had about 170 employees. Hydro's Taiwan remelter was sold in October 2012 to Ting Sin Metal Co. Ltd. The remelter had 85 employees.

In October 2012, Hydro and Orkla announced the planned merger of Hydro's Extruded Products and Sapa, a fully-owned subsidiary of Orkla. The new company, named Sapa, will have about 23,000 employees, of which about 10,000 will come from Hydro. Sapa will be a 50/50 joint venture owned by Hydro and Orkla. The transaction is planned to be completed within the first half of 2013. See page F17.

All manning reductions have been communicated in advance to union or employee representatives and have followed the layoff requirements specified in relevant collective bargaining agreements and legislation. Our ambition in all layoffs have been to handle all affected employees fairly, objectively and in a manner that reduces the risk of discrimination as it pertains to age, gender, race and veteran status, while preserving the competence needed. Different means have been used to reduce the impact on employees and the local communities concerned.

Improvement and cost reduction programs are running in all business areas and corporate staffs, see page 5.

New projects

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

Construction of the expansion from one to three extrusion press lines in Suzhou, China was completed in 2012. Two of the lines are for precision tubes and the third for general extruded products, targeting customers mainly in the Chinese market. Hydro is following up a stakeholder engagement plan that emphasizes company principles in the area of corporate social responsibility, and the plan includes contractors and suppliers. The main suppliers signed declarations stating compliance with these principles, and the plans were audited.

Hydro's extrusion plant, Itu, outside São Paulo in Brazil, was also expanded with one press line, in addition to the three existing ones. Suppliers and other contractors in the project were thoroughly evaluated in advance.

The CAP project covers the CAP alumina refinery project of 1.86 million metric tons per year as well as the expansion of the Paragominas mine to 14.85 million mt per year. Through the Vale transaction, Hydro's ownership in the project increased from 20 percent to 81 percent. The refinery was originally approved and project execution commenced in 2008. Construction has been postponed several times, most recently in March 2012.

Dialog with affected parties

We have a long tradition of conducting a dialog with the relevant parties affected by our activities, such as unions, works councils, customers, suppliers, business partners, local authorities and non-governmental organizations. Stakeholder dialog is based on our experience and principles developed by an international working group headed by the Institute of Social and Ethical Accountability. We identify and initiate dialog to ensure that all views are aired and our decisions communicated. In major projects, stakeholder dialog is a requirement of Hydro directives, local law, World Bank guidelines, the Equator Principles, et al. This includes the principle of free, prior and informed consent when indigenous peoples are involved.

Dialog with the employees' representatives includes involvement at an early stage in restructuring processes. In our new Bauxite & Alumina operations in Brazil, we seek to bring with us our tradition for open and successful collaboration between management and unions. Around the time of the closing of the acquisition, top union representatives from Norway met with local union representatives in Pará to carve out a way forward, formalizing and coordinating union dialog across new and old parts of Hydro. In 2012 two union representatives from each of Paragominas, Alunorte and Albras visited Hydro's Norwegian operations and met among others Hydro's President and CEO, central union representatives in Hydro as well as the Norwegian Confederation of Trade Unions (LO). Albras is part of the global meeting structure between management and union representatives in our Primary Aluminium business area.

A stakeholder engagement and communication plan for Barcarena where Albras and Alunorte are situated, was developed in 2012. Improved stakeholder dialog in Barcarena is important to us. An example is the large number of claims that were filed

against Alunorte in the second quarter of 2012, relating to a spillage of bauxite residue polluted storm water in 2009. See page 68.

Four employee representatives - two nominated from Sapa and two from Hydro - are serving on the reference group for the integration planning process of new Sapa.

We have established contact with local authorities and representatives for our neighbors. This includes dialog with traditional Quilombola groups, see page 73.

When needed, employees are given the opportunity to put questions over the intranet to top management. It is possible to ask questions in person or anonymously, and answers are posted simultaneously through net meetings. President & CEO Svein Richard Brandtzæg has his own blog on our intranet where employees can add their comments, also in person or anonymously.

Public affairs and lobbying

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

Hydro recognizes the value of engaging with public authorities and other stakeholders in relation to the development of various policy initiatives that have an impact on our industry. Hydro interacts primarily with decision-makers in countries in which we have significant operations, such as Norway, Germany, France, Brazil and USA, as well as with regional structures like the European Union institutions.

Hydro promotes its views on issues of importance either through direct interaction with public authorities and other stakeholders, or through various industry associations. These include: the International Aluminium Institute, the European Aluminium Association, The Brazilian Aluminium Association, the American Aluminium Association, the World Business Council for Sustainable Development, the Federation of Norwegian Industry, and many more.

Hydro subscribes to the Code of Conduct for Lobbying in the European Parliament, and is registered since 2010 in the European Register of Interest Representatives, set up by the European Commission. Hydro also is a member of a series of think-tanks, especially in Brussels, and engages regularly in discussions with various NGOs.

Most resources are dedicated for lobbying activities within the EU, Norway and Brazil. Such activities within the EU are publicly reported through the EU Transparency Initiative. In 2012 we spent about NOK 1 million in direct costs on such activities in the EU. In Norway and Brazil about one full-time equivalent is dedicated to lobbying activities in each country.

Community investments and sponsorships

In 2012, Hydro spent NOK 39 million on community investments, charitable donations and sponsorships, down from 61 million in 2011, but above the 2010 level of 20 million NOK. More than half was related to community investments. Main outcome of the investments is a strengthening of local communities in addition to increased goodwill for Hydro and pride in the organization.

Hydro's sponsorship and partnership strategy builds on:

- People (education, humanitarian aid, culture)
- Planet (energy and climate change, recycling, resource management)
- Possibilities (science, technology and innovation, design)

Hydro's social investments and sponsorships should be included in at least one of these categories.

As a mine operator in Paragominas in Parà, Brazil, some of our most important community investments have been performed there. These can be divided into three main categories: mitigating actions or legal conditions, to which the Quilombola program is an example, other value added projects for the local community, where Hydro's activities related to Caseca is an example, and sponsorships for company profiling.

Our activities in Pará include building schools, training for income generation, support for community organizations, a social center for vulnerable children and adolescents, community infrastructure, cultural and sports facilities as well as health care, including a center for HIV/AIDS prevention and treatment. In 2012, we entered into an agreement with Green Municipalities in the state of Pará in Brazil and with the University of Oslo to improve our knowledge about biodiversity in Paragominas, please see page 66. In Barcarena, also in Pará, Alunorte has since 2001 cooperated with the municipality of Barcarena in an extensive program to improve educational performance, including higher enrollments and lower school truancy. The program aims at improving the children's and youngsters' environmental and citizenship knowledge using sport as an important incentive. In 2012, about 2,850 students aged 12 to 20 participated in one or several parts of the program.

Local activities at Hydro sites around the world typically include children's education and sports activities, culture and assistance to needy children. Our sponsorship activities also include support of the Nobel Peace Center in Oslo and an agreement with Save the Children Norway.

Another important contributions is the transfer of competence that takes place through our cooperation with universities and research institutions. This includes scholarships to selected PhD aspirants working in our business areas. Hydro is sponsoring professorships in Norway and Qatar and has several adjunct professors among its own employees. In cooperation with the University of Pará, Alunorte, in Brazil, started a program to further develop 26 of its engineers in 2011. Through a two-year program combining work and studies, they get the opportunity to achieve a Master's degree within process, maintenance or automation.

As from 2012, all sites must report annually on all social investments, charitable donations and other initiatives. This includes amounts / time spent and benefits to the company as well as to the communities. Outcomes for Hydro and the society are also included in the reporting requirements. The reporting is based on a reporting pilot that was carried out in parts of the organization in 2011. Due to the planned merger with Sapa, Extruded Products reported in a simplified manner for 2012.

Community investments in Hydro's new activities in Pará, Brazil have mostly been continued after the acquisition. Further investments will be based on current and future stakeholder dialog, see also page 73.

Cooperating for improved learning

Caseca is a recreation center in Paragominas, Pará, for about 1,000 school children and youngsters from vulnerable families. The center gives lesson support, but is first of all a place where children and youngsters can get a good meal, a shower and learn music, dance, sports and handcraft. Hydro's bauxite mine in Paragominas has supported the center from the start. In 2012 the union Industri Energi at Hydro's Norwegian sites, together with its confederation, decided to support a new project at Caseca to enhance learning using iPads. They are cooperating with the Norwegian based organization Africa Start-Up, and Hydro, which multiplies the union's donations.

Champion in volunteering

Hydro's unofficial champion in employee volunteering is probably the extrusion plant St. Augustine in Florida. Employees annually participate in a row of voluntary activities including highway and beach clean-up, blood donations, nursing home visits, supporting charitable events, and collecting food and gifts for needy school children as well as for women and their children in a local shelter for victims of physical abuse. In some cases employees even bring their families to volunteer for the good purpose. All projects are also sponsored by Hydro.

Organization and work environment

We achieved our most important target in 2012 - no fatal accidents in our consolidated operations. We will not achieve our most important target in 2013. A contractor employee lost his life following an accident at an extrusion plant in France. Our TRI rate (total recordable injuries per million hours worked) was 3.4 in 2012, improving from 3.8 in 2011, but not reaching our target of 2.85. Even though our safety results are among the best in industry, our ambition is to improve further.

We aim to be highly competitive when it comes to recruiting and keeping the best-qualified personnel. We emphasise developing a healthy and safe work environment, providing each employee with proper conditions for continuous development of her or his expertise.

Hydro's organization in 40 countries represents a great diversity in education, experience, gender, age and cultural background. We see this diversity as a significant resource, not least to encourage innovation. Good leadership, a proper organizational structure and the right tools are essential to achieving this. This includes attracting and retaining the right people.

It is important that our employees enjoy good health, and feel safe and appreciated. Healthy and motivated employees perform better and are more creative, and in that way contribute to increased profitability and better results.

2012 targets

- No fatal accidents
- Total recordable injuries per million hours down by 25 percent to 2.85
- Diversity awareness program launched
- 90 percent response rate on Hydro Monitor. All units should have developed follow-up plans by the end of September

2012 results

- No fatal accidents
- Total recordable injuries per million hours down by 11 percent to 3.4. Target not reached
- Diversity awareness program launched
- 92 percent response rate on Hydro Monitor. All units had developed follow-up plans by the end of September

2013 targets

- No fatal accidents
- Total recordable injuries per million hours down by 16 percent to 2.85
- Revitalize the appraisal dialog system (HLDP) - pilot testing should be completed and roll-out plan prepared
- Enable diversity: Diversity ambitions should be communicated and awareness workshops conducted

Ambition

Our ambition is to have no fatal accidents or other serious injuries and no new work-related illnesses. We will utilize HSE opportunities as a competitive edge. Furthermore, we aim at increasing employee commitment and maintaining performance excellence across the organization.

Effective organization

Hydro had 21,566 permanent employees at the end of 2012, a decrease from 22,813 in 2011. In addition, we had 1,161 temporary employees compared to 1,368 the year before. Contractor employees represented about 8,200 full-time equivalents during 2012, down from 8,900 in 2011. The decrease in 2012 followed closures and divestments as well as improvement programs in all business areas, see page 75. We have the highest number of employees in Brazil, followed by Germany, Norway and the U.S. Following the demerger of our Extrusion business, the large majority of employees will be concentrated in Brazil, Germany and Norway.

Hydro's people strategy is built on five pillars: performance culture, competence management, leadership pipeline, diversity and mobility. In 2013, we will mainly concentrate on revitalizing our leadership development and appraisal dialogue system HLDP, and initiating the implementation of a company-wide diversity program.

Restructuring and continuous improvement are essential elements of our business operations. Our aim is to involve employees in such processes at an early stage in order to achieve the best results for the individual and for the company. See page 77.

Developing and retaining the right competence

We offer new employees training related to the organization and their individual work tasks. This includes required competence within health, security, safety and environment. The most important development takes place locally, primarily with on-the-job training, but also through locally organized training. A special training course, Hydro Fundamentals, welcomes the employees, giving them insight into Hydro's history, values, competitive landscape and businesses. By the end of 2012 more than 95 percent of all employees in our Bauxite and Alumina operation had been through the Hydro Fundamentals program to be introduced to Hydro's values, social responsibility, value chain and HSE requirements. An interactive e-learning program - "You and Hydro" - deals with Hydro's policies and the rights and obligations of our employees. The program discusses some of the dilemmas employees may meet in their daily work, and presents a spectrum of work situations relevant to employees everywhere. It also raises issues like safety, security, work environment, human rights, combating corruption and reporting. See also www.hydro.com/youandhydro

The Hydro Leadership Development Process (HLDP) is our common tool for employee appraisal dialog, individual development and follow-up, as well as for talent planning and succession management. Through our people strategy we have identified a need for revitalizing the HLDP process, mandatory for leaders and specialists, while the simplified version HEDP will be made mandatory for all other staff members and operators. Both systems include individual target setting aligned with business needs, performance appraisal and development planning. HLDP also includes critical position identification, potential assessment and succession planning. A pilot of the revised system will be run in 2013, with the ambition that all employees shall be included in HLDP or HEDP by the end of 2015.

Hydro Monitor is carried out for all employees every second year. The survey was subject to several changes in 2012. A new supplier was selected, and the questions were revised. As a result of this the 2012 survey cannot be fully compared to the 2010 survey. In the new survey we report on two main indexes - the employee engagement index and the performance excellence index. We scored 65 percent on the engagement index while the long-term ambition is to be in the range 70-75 percent. The performance index for 2012 was 72 percent, which is considered a good level. The performance index measures among other things to which degree systems and processes are in place. In 2012, 97 percent of all employees were invited to participate and the participation rate was 92 percent. Our target was a 90 percent response rate. The engagement index scores 68 percent among women and 65 percent among men, while there were no gender specific difference in the performance index. The most important part of Hydro Monitor is follow-up. All units had follow-up plans by the end of September, based on their survey results.

In order to have a healthy pipeline of senior leaders with the required breadth of experience, we emphasize rotating employees early in their careers so that they gain skills from different parts of the organization. Performance indicators are developed in the business areas and sectors to measure rotation. In addition to running the Hydro Executive Program and a program for new leaders, we plan to develop a new program for middle management in 2013.

The employee turnover rate in 2012 (excluding Brazil) was 10 percent, up from 7.7 percent including resignations, retirements and manning reductions, but excluding closures and divestments. The employee turnover rate varies much from country to country - from about 3 percent in Slovakia and Germany to 12 percent in the US and above 20 percent in China. The overall turnover rate for women was 8 percent, down from 12.7 in 2011.

Diversity

We see diversity as a source of potential competitive advantage for Hydro and emphasize diversity with regard to nationality, culture, gender and educational background when recruiting, and when forming management teams and other working groups. While 87 percent of our top executives are Norwegian or German, only 38 percent of Hydro's employees are the same. Women are represented in the board of directors, the corporate management board and in most business area management teams. We are aiming at further diversity at all levels. A company-wide diversity awareness program was established in 2012. During 2013 we will perform high-level awareness workshops, define targets and actions and start mobilizing the organization.

We are continually adjusting working conditions so that all employees, regardless of their operability, have the same opportunities in their work place. The principle of equal terms is prioritized in recruitment, job promotions and individual

development. In Brazil, we are required to employ minimum 5 percent disabled people. In 2012 we almost reached this target in Alunorte, while we in Paragominas are striving to find enough people that are both qualified and interested. We will in 2013 start developing specific programs together with the local work authorities to achieve the target.

In 2012, 15 percent of Hydro's employees globally were women, compared to 14 percent in 2011. Eleven percent of the employees in Brazil and Germany are women, compared with 19 percent in Norway, 18 percent in the U.S., 16 percent in France and 8 percent in Italy. These countries are the ones where Hydro has most employees. Almost 240 new employees were recruited in Norway, Germany, Italy and Slovakia in 2012, of which 23 percent were women. In Norway, we recruited in total 98 employees in 2012, compared to 80 in 2011. Of these, 28 percent were women, compared to 19 percent in 2011. Almost half of the new employees in Norway with a Master's degree were women.

Hydro employs locals when necessary competence and capacity is available, and normally uses expatriates only to secure employee development and the transfer of values and competence.

Female operators wanted

Since Hydro's mining operations in Paragominas started their apprentice program in 2006, female truck drivers have been regarded as attractive employees. By the end of 2012, 63 of the truck drivers in the mining operations were women. In the beneficiation plant, 15 more female operators are employed. About 90 percent of the women have been recruited through the apprentice program. All apprentices go through the same basic training and practice on simulators and assisted operations. Based on performance they are appointed to operate bigger and more complex machines, independent of gender. The only special care is during pregnancies when they are relocated to administrative or less physically demanding work.

Joint efforts for the work environment

Aluminiumindustriens Miljøsekretariat (AMS) is an association for the primary aluminium industry in the Nordic countries. AMS' object is to acquire, adapt and exchange knowledge and experience to improve HSE in and around the aluminium plants in the Nordic countries to the benefit of the plants, employees and surroundings. The organization is jointly governed by management and union representatives - equally represented - from the member companies, which include aluminium smelters in Iceland, Norway and Sweden. All Hydro's fully and part-owned smelters in Norway are included. Currently, AMS is working on projects related to fluorides in the work atmosphere, traffic behavior and noise control.

Share of non-Norwegian leaders

Share of women leaders

The total share of women at all levels in Hydro was 15 percent in 2012

Compensation

All employees shall receive a total salary that is fair, competitive and in accordance with the local industry standard. Only relevant qualifications such as performance, education, experience and other professional criteria shall be taken into account when making appointments, or when providing training, settling remuneration and awarding promotion. There are no significant gender-pay differentials for employees earning collectively negotiated wages in Norway. Salary conditions in the Norwegian business are reviewed on a regular basis. No significant gender-related differences were found in 2012. 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, achievements of operational and organizational key performance indicators (KPIs), including targets relating to safety and environment (HSE) and corporate social responsibility (CSR), and compliance with and the promotion of Hydro's core values (The Hydro Way). Please see note 10 and 11 to the consolidated financial statements for more information.

Health and work environment

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

We work continuously to avoid new occupational illnesses. In 2011, we developed common definitions for reporting both potential and verified cases. The implementation of this common definition started early in 2012, but still the majority of the reports are from Norway, showing that we need to improve our global reporting further. The development is tracked through a corporate reporting tool. The occupational-illness rate in 2012 was 1.9 cases per million hours worked, up from 0.6 in 2011. Most of the reported cases were related to noise. We expect a further increase in 2013 due to improved reporting.

A handbook for assessing physical and chemical work-environment risks is used by the business areas to help map and evaluate Hydro's work environment. Most sites have performed such assessments and the tool is under implementation in our Bauxite & Alumina business area. To encourage further improvement of the physical and chemical work environment, we have established a performance indicator linked to risk assessment. It is a proactive indicator, describing the potential for possible future damage to health. The indicator has been implemented at most of our sites. Local targets for 2012 were based on identified risk-reducing measures and followed up through a corporate reporting tool. We are working on further implementation, including introduction of the indicator in Bauxite & Alumina.

Hydro Monitor (see page 81) is another tool we use to track the organizational work environment, and the results are followed up through local action plans.

Outstanding safety performance

The Itu Precision Tubing plant in Brazil and the Høyanger plant in Primary Metal won the President's HSE Award for 2012. The plants won the award for outstanding safety performance in the past year. Acro took the prize for units with fewer than 200 employees, while Høyanger won in the category with more than 200 employees. Nominees for the President's HSE Award must have demonstrated outstanding results and improvements in HSE performance. Høyanger is using the AMPS system (see page 91) to build a safety culture by setting clear targets and involving all the people. The Itu Precision Tubing plant has not had any registered injuries since March 2007.

Working in the Green Zone

After a significant decrease in the TRI (total recordable injuries) in our Primary Aluminium business area, we experienced an increase, particularly in minor injuries, due to unsafe behaviour. Our Karmøy plant then developed the Green Zone, the safe place where everyone wants to be to avoid hurting oneself, a colleague or damage equipment. To enter into and remain in the Green Zone, commitment is needed from all levels in the organization. Each individual must take care of him- or herself, look after each other and commit to the principle that there shall be a safe way to carry out any job - using existing safety tools. The concept has been rolled out in several plants using training at group and individual level, visual signs to show commitment etc.

Through our activities in Brazil, we have significant activities in areas where some tropical diseases are present. Malaria is only present to a limited degree in our consolidated operations. Minority-owned MRN has a program to limit malaria both within its premises and in the neighboring communities. This includes information given to employees, their families and riverside dwellers. The number of malaria cases is recorded. No epidemics took place in 2012. Dengue fever occurs from time to time at several of our operations in Brazil, but no cases were reported in 2012. Employees are informed about the risk, and treatment is given through the operations' health service. HIV/AIDS is an increasing concern in Brazil. Hydro has paid for the construction of an HIV/AIDS center in the city of Paragominas, which is operated by the authorities. The center gives information about how to prevent the disease as well as treatment to the infected. Several of our Brazilian sites participate annually in campaigns to prevent sexually transmitted diseases.

Registered sick leave in Hydro was 3.2 percent in 2012, up from 3.1 percent in 2011. 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 4.6 percent in 2012, up from 4.4 percent in the previous year. Men's sick leave was 4.4 percent, up from the 2011 level of 4.1 percent, while women's sick leave was 5.7 percent, which was the same as in 2011.

Safety

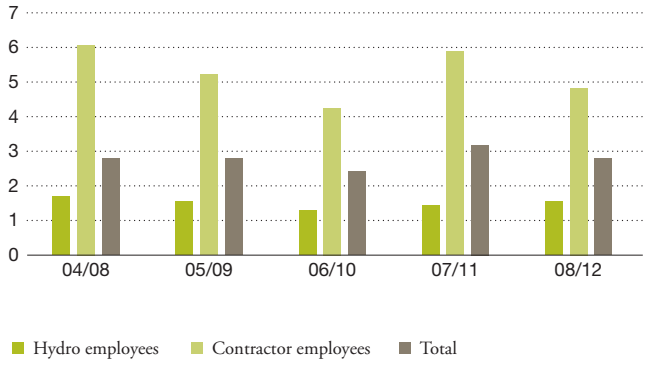
Our ambition is to avoid all serious accidents. We work continuously to avoid damage to property and loss of production. This applies to all our activities.

We reached our most important target in 2012, no fatal accidents. We will not achieve our most important target in 2013. A contractor employee lost his life following an accident at Hydro's extrusion plant in Lucé, France. Safe operations continue to be of paramount importance, and our ambition of no fatal accidents remains our top priority. Our TRI rate (total recordable injuries per million hours worked) improved from 3.8 in 2011 to 3.4 in 2012 or by 11 percent. Still, we did not reach the target of 2.85.

The contractor lost-time injury (LTI) rate continued increasing in 2012 from a very low level during the construction of the part-owned Qatalum smelter in Qatar, which was performed under the supervision of Hydro's Projects organization. Safety was an important part of the project and resulted in a low lost-time injury rate (LTI). The ratio of contractor hours in large projects has decreased significantly since 2010, and thus the LTI has increased. Since 2011 we have also reported TRI for contractors in addition to the LTI rate.

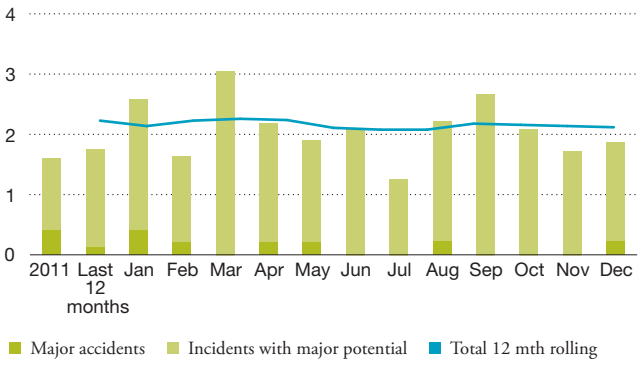
Fatal accidents

Per 100 million hours worked, five-year rolling average



High risk incidents

Per million hours worked (employees and contractors combined)



In minority-owned operations, we are working through the board of directors to follow up safety in general and serious incidents in particular.

In a 10-year perspective, we reduced the number of injuries per million hours worked from 10.3 in 2002 to 3.4 in 2012. Our long term ambition is to have no serious injuries. By 2020, Hydro's TRI rate should not exceed 2.0 for employees and contractors combined.

Risk awareness and management commitment are important to improve safety performance. Internal independent investigations are routinely initiated after fatal accidents and other serious incidents to identify the causes and reduce risk for recurrences.

We have initiated several measures to improve our performance. In 2012 we started implementation of a company-wide, harmonized high-risk incident investigation and communication tool. We have defined the priority areas man/machine interface, traffic and contractors as well as leadership behavior. Our Extruded Products business area introduced in 2012 an auditing tool for corrective actions of high risk incidents, contributing to a reduction of 40 percent in such incidents from 2011 to 2012.

Designing the interface between employees and technical equipment is important to avoid dangerous situations and accidents. Our Extruded Products business area has spent Euro 15 million on this during the last five years and plans to continue the work. In addition comes similar activities in the Primary Metal and Rolled Products business areas.

The CEO's HSE Committee was established in 2012 as a strategic decision-making committee for all main HSE-related matters in Hydro. The committee is led by CEO Svein Richard Brandtzæg. In addition, the heads of the business areas participate on a permanent basis.

A safer place to work

Making the plant a safer place to work and to deliver on the operational improvement program will be Alunorte's top priorities, says the plant's new top manager, Geraldo Brittes. Ongoing safety work has revealed a need for improvement in managerial systems, individual behavior, as well as in hardware installations and schematics. An HSE compliance audit performed at Alunorte in November 2012 confirmed the challenges that management in Bauxite and Alumina has been addressing since Hydro took over its operations. A new initiative at Alunorte empowers employees to refuse to work if they believe a high-risk condition is present. Brittes says employees taking responsibility of their own safety is very important in order to improve the plant's safety performance. "We are all responsible for safety in our day-to-day work," he says.

Still have a long way to go

"We still have a long way to go before the 'Hydro Way' is really established as the management style. We hear operators saying that things are imposed on them. Unfortunately some of the managers keep the old management style. The worker is still fearful, considering that the situation will not change."

Antonio Gaspar, president
Sindiquimicos (Alunorte's worker's union)
Read full interview at www.hydro.com/reporting2012

Total recordable injuries

Per million hours worked

Lost-time injuries

Per million hours worked

REACH

The EU regulation on chemicals, REACH, entered into force on June 1, 2007. Aluminium is covered by the regulation.

Hydro is on track with our implementation of REACH, having successfully completed the second stage in the legal process, i.e. the registration of substances produced and/or imported into the EU in volumes above 1,000 metric tons per year. The next step in the implementation of REACH is the registration of substances produced and/or imported in volumes above 100 mt. The deadline for this registration is June 1, 2013. A further deadline for substances above 1 mt is June 1, 2018.

Classification, Labeling and Packaging (CLP)

The Regulation on Classification, Labeling and Packaging (CLP) transposes in European law the Globally Harmonized System (GHS) for classification and labeling adopted by the United Nations. It covers substances and mixtures, and replaces the previous EU Dangerous Substances Directive and Dangerous Preparations Directive.

CLP is about the hazards of chemical substances and mixtures and how to inform others about them. It is the task of industry to identify the hazards of substances and mixtures before they are placed on the market, and to classify them in accordance with the identified hazards.

Importers and manufacturers must provide notification about substances subject to registration under the REACH Regulation and hazardous substances, irrespective of volumes, prior to placing them on the market. The first notification deadline was January 3, 2011, which was successfully met by Hydro. The next deadline is June 1, 2015.

Security

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

To prepare for and respond to intentional, unintentional and/or naturally caused disasters, and to protect people and critical assets, security measures are adapted and commenced pending on the evolving risk picture. Security guards are employed on a regular basis to protect our personnel and assets. No armed guards were engaged in 2012, and there were no significant incidents reported in connection with the use of security guards.

Hydro is responsible for infrastructure and functions on local and regional level that might be critical to society's operability, and we operate large-scale production sites where a crisis could influence community interests and safety in general. Hence, we are subject to control and follow-up by respective national authorities. These potential high-risk incidents are paramount to our emergency planning, and we maintain a high state of preparedness, being trained and monitored through regular exercises. A central emergency team is in place to support line management and ensure crisis handling in accordance with Hydro's requirements and expectations.

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

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

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

Innovation

We believe that the key to Hydro's 107-year-long stretch of industrial progress is the combination of production and innovation, where research and development have gone hand-in-hand with full-scale production.

Our technology efforts are concentrated on 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. That's why we are working to maintain progress, unaffected by the fluctuations of the business cycle. 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.

In 2012, research and development costs recognized as an expense amounted to NOK 247 million compared to NOK 248 million in 2011. In addition, Extruded Products, which is reported as discontinued operations in Hydro's financial statements, accounted for NOK 191 million, down from NOK 260 million in 2011. The greater part of our R&D expenses goes to our in-house research organization, while the remainder supports work carried out at external institutions, see Note 14. Our main

R&D centers are located in Årdal (smelter technology) and Sunndal (alloys and casting) in Norway, Bonn in Germany (Rolled Products) and Toulouse in France (Building Systems).

Starting in 2012, all business areas are responsible for their own technology development and execution of their respective technology strategies. As part of the new organizational model, a corporate technology office was established to ensure a holistic and long-term approach to Hydro's technology strategy and agenda. The technology office leads an internal R&D network with representatives from the business areas, and supports the corporate management board in developing overall research and technology priorities and strategies.

A major advantage for Hydro from an innovation perspective is the knowledge and control of the complete value chain from bauxite mining, alumina refining, electrolysis of primary aluminium and alloy technology to finished products. We also have our own hydropower production in Norway.

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

Hydro Recognition Program

The objective of the Hydro Recognition Program is to energize all employees by recognizing excellent work and best-practice sharing. The winner is an organization or a team that has demonstrated outstanding effort within the areas of HSE, innovation or performance. Winners should clearly demonstrate the spirit of The Hydro Way, emphasizing the values of Hydro in the way they work. The first winners of the Hydro Recognition Program were selected in 2012:

- Innovation Award: Aluminium foil for batteries in electric cars by Rolled Products Grevenbroich (see page 89)
- HSE Award: The Itu Precision Tubing plant in Brazil and the Høyanger aluminium smelter in Norway (see page 83)
- Performance Award: The extrusion plants Nenzing in Austria and Bellenberg in Germany

"Hydro should view its role as part of the solution"

"My most important challenge to Hydro is to get the company to invest even more in products that the world will need - in a zero-emission society. As a metal producer, Hydro needs to view its role as part of the solution to one of the biggest challenges of our time."

Marius Holm, general director
Zero Emission Resource Organization (ZERO)
Read full interview at
www.hydro.com/reporting2012

Bauxite & Alumina

We have ambitions to develop improved beneficiation and refinery processes, which will enhance efficiency in the use of raw materials and allow us to utilize a greater portion of the marginal bauxite ore. In this way we aim to reduce the area affected per ton bauxite extracted.

We are continuously working to reducing our 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, and we have ambitions to improve further by implementing new dry disposal technology. We will also continue to investigate options for residue utilization. See also page 68.

Having become a fully integrated aluminium company, we are now establishing a closer collaboration between the alumina refinery and the smelter customers in order to increase our understanding of how alumina quality affects smelter performance.

Energy

Our power plants are operated in a cost efficient way emphasizing preventive HSE work, (see page 62) and we have developed extensive competence within operational risk control and income optimization. In addition our Energy business area supports other business areas in their energy agenda. In Norway we are increasing our production capacity by optimizing existing hydropower plants and are looking for new opportunities especially within existing concession areas. We cooperate with suppliers and participate in industry-wide R&D programs, but do not run our own specific R&D programs.

Primary Metal

Our vision is to develop a reduction cell technology at world-class capital and operational expenditure level that approaches an energy consumption of 10 kWh per kg aluminium.

In our Primary Metal business, R&D is important to strengthening competitiveness by improving the cost position of our metal plants. Prioritized tasks are reducing energy consumption, improving cell efficiency, reducing operating costs and reducing capital expenditure, while limiting the environmental impact. Because energy constitutes a significant part of total production costs, energy efficiency is one of the most important ways to reduce costs, while at the same time reducing the climate footprint.

The primary aluminium plants in Sunndal, Norway and Qatalum, Qatar are using Hydro's proprietary electrolytic process technology. Our next generation technology, HAL4e, has been thoroughly tested in six full-scale production cells. We are now developing this technology further. HALsee (HAL super-efficient energy) is targeting a maximum of 12 kWh/kg aluminium produced (see more information below). We are emphasizing cell productivity as well as reduced energy consumption and climate-gas emissions from the production process.

New cell technology in operation

In December 2012, we started a new prototype cell in Årdal, Norway. The new electrolytic cell HALsee - or HAL super-energy efficient - is built to operate at less than 12 kWh per kg aluminium. Improved and new technology elements have been introduced for almost all parts of the cell, including the busbar system, the cathode design, anode assembly, the superstructure, the gas collecting system, and process control software. The HALsee cell has been developed by a team of experts based in Årdal and Porsgrunn in Norway, Neuss in Germany, and Canada, and has been financially supported by Enova and Innovation Norway.

In order to get the power consumption below 12 kWh per kg aluminium, the electric resistances of all components of the cell have been reduced. At the same time, we need to avoid freezing of liquid bath which is a possibility due to much less energy input in the cell than with previous cell designs. From day one, the cell has shown good potential for reaching the target of producing at less than 12 kWh per kg aluminium. The HALsee project is part of the so-called HAL ultra development program. The ambition of this program is to develop cell-technology, bringing electricity consumption further down towards 10 kWh per kg aluminium in the future.

The Scrap Portal

Hydro's Scrap Portal, which was made fully operational primo 2012, is an electronic tool used to raise competence and efficiency within the organization. Most of our remelters are using the portal for all scrap procurement. The portal is also used to coordinate scrap collection with customer deliveries. All information pertaining to the scrap procurement process is readily available to all stakeholders in Hydro. Work processes and data definitions have been harmonized, and order handling has become more efficient with better system integration and reduced risk for errors. The system also facilitates knowledge sharing between scrap buyers and improved performance monitoring and reporting.

In 2013 we plan further integration with APICS production software to allow improved forecasting and planning and thus increased scrap intake. With Hydro's ambition in recycling, the purchased scrap volume can grow significantly in the coming years.

Casting

Improvement work is carried out in close collaboration between our customers, production units and R&D, emphasizing three main topics: Quality of our products, efficient production and new alloys to cover specific market needs. Quality improvements are closely linked to our customer technical service, listening to our customers' needs while improving our own casthouse process. The casthouse production process relies on our cutting edge proprietary casting technology, developed by our fully-owned equipment producer Hycast and our R&D center.

Access to old scrap is also important, please see more specific information at the previous page about Hydro's Scrap Portal.

We develop new alloys with tailor made properties to meet future needs within the automotive, building, electronics industries etc. This work starts with a deep understanding of metallurgical phenomena that occur on an atomic level. Based on this, sample compositions and production are made in our laboratory or reference cast house, and properties mapped out. Finally, full scale tests are done, often together with customers, or even with the end users, to verify the performance of the new compositions.

Product development

Implementing and commercializing innovative product ideas and concepts are core activities in Hydro. 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.

Our approach to involve customers and key stakeholders in developing better solutions helps us to differentiate and become a partner of choice. One example is a customer which we have supported with the development of a more efficient aluminium bus bar system to replace a copper system. Another example is an automotive customer for which we are working to further improve crash systems in cars.

We also work closely with customers to develop products that save energy and reduce emissions. Aluminium façades can lower operating costs and help buildings produce all the energy they consume during operation. We have constructed three such buildings in Hydro, in Germany, France and India. Heat pumps, integrated photovoltaic systems and intelligent building design all contribute to energy neutrality, see page 90. Another example is our Rolled Products business area which works with packaging manufacturers to improve certain packaging materials, to provide high functionality while improving recycling rates.

Improving battery technology

Hydro has developed an aluminium current collector foil for Li-Ion batteries designed for electric cars which is also applicable for other commercial battery manufacturing processes, for example to efficient storage of electricity from solar or wind power. The new foil has lower electrical surface resistance, excellent coating behavior and best-in-class efficiency. A new production line for the battery foil was started late in 2012 at Hydro's Grevenbroich plant in Germany. Our ambition is to develop this from a niche product to a mass product. The concept won Hydro's Innovations Award for 2012 (see page 87).

Increasing aluminium content in cars

Lighter vehicles is an important means to reducing climate gas emissions from transportation. Hydro's new aluminium sheet, in alloy type 6-30+, delivers to the efficient construction of aluminium car body parts. It enables carmakers to construct much larger and more complex body parts from one single sheet of aluminium. Hydro received first place of the ÖKO-GLOBE Award 2012 - presented by the University of Duisburg in Germany - in the award category of raw materials, materials and procedure optimization. The award targets innovations that help reduce the environmental impact of mobility. Hydro also delivers aluminium to other car parts, thus contributing to lower weight and lower emissions, see also page 62.

Recycling

We aim at further increasing our recycling capacity of used and contaminated process scrap. This can only be achieved by evaluating the whole recycling chain, from collection of aluminium scrap from industry and consumers to identifying applications for recycled materials. Scrap collection is mainly business development, but includes also support from R&D, see the Scrap Portal at page 88.

Scrap processing is one of the two main areas in our recycling technology strategy, in particular to refine the scrap so that it can be used to produce the needed high-quality semi-finished products. In this area we are benefiting from our extensive alloy and casting expertise. Scrap utilization is the other main area, to find optimal products for recycled aluminium. Developing recycling-friendly products to prepare for future recycling is also an important part of this work.

Our recycling-related projects also include reduction of total process waste and waste sent to landfill. Hydro participates in national and EU-funded projects to support our ambition as a company and industry, please see below.

Cooperating with other institutions

In Norway, we receive support from several public institutions to further develop our smelter and casthouse technology as well as downstream activities. These include The Research Council of Norway, Enova and Innovation Norway. In 2012, we received in total NOK 47 million from these institutions, while we have been granted NOK 119 million to be paid out in the years to come if certain projects are implemented.

We also participate in other national and EU-funded R&D projects on post-consumer scrap-recycling technology, following market demand for products with a low carbon footprint. Our R&D program includes joint projects with external research institutes such as SINTEF and NTNU in Norway, RWTH Aachen in Germany, MIT in Boston, USA and WPI in Worcester, USA. We work together with NTNU in the field of material flow analysis and with MIT on the development of new algorithms for charge optimization. A major co-operation is the participation in the Advanced Metals and Processes (AMAP) Research Cluster at RWTH Aachen, where two recycling related projects deal with furnace development and melt quality measurement. Furthermore there are two projects funded by the German Federal Ministry of Research and Education (BMBF), one with CUTEC in Clausthal-Zellerfeld on spent potlining inertization for alternative fuel usage, and one with RWTH Aachen on aluminium recovery from incinerator ashes. We also participate in other national and international projects on post-consumer scrap-recycling technology following the market demand for products with a low carbon footprint. External funding of the projects in Germany is about Euro 100,000 per year.

Within Bauxite & Alumina and Energy, we mostly base technical R&D on our suppliers as well as industry cooperation. See for example page 66 on how we cooperate with other companies and the University of Oslo to improve reforestation and secure biodiversity in Brazil.

Great potential for rehabilitated buildings

Through the Norwegian Powerhouse alliance, Hydro is contributing to the first rehabilitation of an office building to become energy-positive - a building that produces more energy than it consumes during its lifecycle. The building is situated nearby Oslo in Norway. After renovating, the ambition is that the buildings' energy needs will be covered by its own production. This includes solar panels that can produce electricity for use on the site or for delivery to the power grid. The solar panels can each year supply more than 200,000 kWh, or 41 kWh/m2. Together with energy wells, insulation, sun shading etc., the ambition is that the building will produce more energy than it consumes. The rehabilitation potential of buildings is huge. In Norway alone, the total energy consumption of office buildings is 5-6 TWh, or the consumption of about 300,000 homes. Buildings account for about 40 percent of the world's total energy consumption.

Corrosion testing in Qatar

Hydro and the Norwegian University of Technology and Science (NTNU) have been working with aluminium alloys for several decades. Their Qatar-based counterparts are eager to build competence in aluminium, and can contribute new knowledge about how aluminium alloys are affected by the Middle East climate, especially under hot and humid conditions. As part of this collaboration, Hydro's partner in Qatalum, Qatar Petroleum, is setting up test rigs to field-test corrosion exposure of several materials, including two important alloys produced by Qatalum, in the Qatari climate over a period of two-three years. As part of their Master's thesis, five students at the Qatar University and three from NTNU are discussing how to conduct realistic corrosion tests. They are supervised by experts from Hydro, NTNU, Qatar Petroleum and Qatar University. In addition to testing corrosion in harsh environments, the students will perform fatigue testing as well as testing of strength and ductility on aluminium alloys.

Best practice sharing

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

All employees in the organization are included in the process, which involves e-learning, classroom training, on-the-job training and job observation. AMPS includes an ongoing training academy, which also includes a leadership development program for all employees in management or supervisory positions. So far, about 800 managers and supervisors have taken part in the leadership program, while all employees in the relevant business areas have participated in different academy training sessions. Implementation of AMPS is an important part of our USD 300 per metric ton primary aluminium cost-reduction program.

The production system has been implemented at all our metal plants, including the joint-venture plants Qatalum, Slovalco and Albras. Albras (acquired in 2011) has introduced an "AMPS para todos" - AMPS for all - program. So far, 1,000 employees and the most important contractors have participated.

Bauxite & Alumina is developing their own production system - Bauxite & Alumina Business System (BABS) based on the experience from several successful methodologies including the AMPS principles. Our extrusion and rolling activities have similar systems adapted to their business needs.

About the reporting

Hydro's main reporting for 2012 on Viability Performance is included in the Annual Report. In the web version of the Annual Report, we have included supplementary information on reporting principles (scope, definitions, explanations) and our adherence to the voluntary AA1000 AccountAbility Principles Standard (AA1000APS), drawn up by the Institute of Social and Ethical Accountability. An index referring to the Global Reporting Initiative's Sustainability Reporting Guidelines and a Communication on Progress report in accordance with the United Nations Global Compact is also on the Internet, with links to the relevant information. The Communication on Progress is included on page 102.

Principles for reporting on viability performance

The purpose of Hydro's reporting is to provide stakeholders with a fair and balanced picture of relevant aspects, engagements, practices and results for 2012 at a corporate level. We believe that the reporting in total satisfies this purpose. Our reporting on viability performance is aligned with the main reporting principles of the Sustainability Reporting Guidelines from the Global Reporting Initiative and the requirements of the International Council on Mining and Metals. The selection of elements reported is based on extensive dialog with stakeholders and proposals from them. In addition, the reporting builds on processes that are part of our daily operations. Important stakeholders include authorities, investors and financial analysts, employees and their representatives, potential employees, customers, non-governmental organizations and local communities affected by major development projects or restructuring processes. Reporting is not necessarily the target of the dialog process, but when relevant, we use the outcome to improve our reporting, see page 77.

We believe this approach is consistent with the principles of inclusiveness, materiality and responsiveness required by AA1000APS.

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

Reporting scope and limitations

The scope of the report is Hydro's global organization for the period January 1 to December 31, 2012. In general, operations sold or demerged during the year have not been included. All consolidated operations that have been part of Hydro during parts of 2012 are still included in our health and safety data for the period the unit was owned by Hydro.

Data relating to health, environment and safety have been prepared by individual reporting units in accordance with corporate procedures. This applies to all Hydro's operations, including consolidated subsidiaries and units for which we have operator responsibility. This applies if not otherwise stated.

Non-operated, minority-owned operations are not included in the reported data, except for greenhouse gas emissions from Hydro's ownership equity, as reported on page 61 and 99. In addition, we include some examples and other qualitative information that demonstrate how we promote our policies toward these operations.

It is not the intention to include detailed information that is primarily of significance for individual sites, processes, activities and products.

Information in the reporting is based on input from many units and sources of data. Our emphasis has been to ensure that the information is neither incomplete nor misleading. However, the scope of the report, and the varying certainty of data in connection with diversity and HSE matters, for example, may mean that there are uncertainties regarding some of the figures reported.

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

Restatements

Hydro's Bauxite & Alumina operations were acquired in 2011 and included in our reporting from the same year. Through the reporting process in 2012 we discovered a few errors in the reporting for 2011 (included in Hydro's Annual Report 2011) of which the most significant were:

- Generation of tailings in Paragominas, Brazil in 2011 was 4.4 million metric tons (mt) not 5.6 million mt.
- Water from Paragominas that was exported to Alunorte, also Brazil, was measured both at Paragominas and Alunorte in 2011. Correctly reported, Hydro's total water consumption in Brazil in 2011 was 32 million m^3, not 36 million m3.

Assurance principles and scope

We have requested our company auditor to review the information relating to viability performance in accordance with the AA1000 Assurance Standard (2008) (AA1000 AS). This is an assurance standard for this type of reporting, and the review considers both the accountability principles and performance information. The review was conducted in accordance with the international audit standard ISAE 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information. This year, we have adopted a limited level of assurance, which is deemed as being equal to a moderate level of assurance as defined by AA1000AS. For the underlying systems, the reader is referred to Hydro's steering documents as described under Corporate Governance, see page 139. The auditor's review report is presented on page 94. Based on the AA1000 AS the auditor has commented on our adherence to the AA1000 APS. We describe our adherence to the AccountAbility principles in our Annual Report 2012 on the web, see www.hydro.com/reporting2012

Learn more:

www.hydro.com/gri
www.hydro.com/globalcompact
www.hydro.com/principles
www.hydro.com/reporting2012

Auditor's report

Auditor's Review Report on Hydro Viability Performance 2012

To the readers of Hydro Viability Performance 2012:

Introduction

We have been engaged by Hydro's Board of Directors to review the Viability Performance presented on page 10-22 and 59-102 in Hydro's Annual Report 2012 and the documents GRI Index and Hydro adherence to AA1000 2012 found on www.hydro.com/reporting2012 under the heading Viability Performance. The Board of Directors and Corporate Management Board are responsible for ongoing CSR activities, and for the preparation and presentation of the Viability Performance in accordance with the applicable criteria. Our responsibility is to express a conclusion on the Viability Performance based on our review.

Scope of review

We have performed our review in accordance with ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board as well as AA1000 Assurance Standard (2008), type 2, as issued by AccountAbility. A review[1] is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Norway. The procedures performed consequently do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our assurance does not comprise the assumptions used by Hydro or whether or not it is possible for Hydro to reach certain future targets described in the report (e.g. goals, expectations and ambitions).

The criteria on which our review is based are the sections of the "Sustainability Reporting Guidelines, G3" published by the Global Reporting Initiative (GRI) and the requirements of the International Council on Mining and Metals (ICMM), which are applicable to the Viability Performance. We consider these criteria suitable for the preparation of the Viability Performance. IFAC require us to act in accordance with IFAC Code of Ethics for Professional Accountants. In accordance with AA1000AS (2008), we confirm that we are independent of Hydro. Our review has been performed by a multidisciplinary team specialized in reviewing economic, environmental and social issues in sustainability reports, and with experience from the industry Hydro operates within.

Our review has, based on an assessment of materiality and risk, among other things included the following main procedures:

- Assessment of the suitability and application of certain criteria in respect to the information provided to stakeholders.
- Update of our knowledge and understanding of Hydro's organization and activities.
- Interviews with responsible management, at different levels within the Group, with the aim of assessing whether the qualitative and quantitative information stated in the Viability Performance is complete, correct and sufficient.
- Reading of internal documents to assess whether the information stated in the Viability Performance is complete, correct and sufficient.
- Evaluation of routines used for the collection and reporting of information and data.
- Analytical review of reported information.
- Review of underlying documentation, on a test basis, to assess whether the information and data in the Viability Performance is based on that documentation.
- Pre-announced visits to Hydro facilities located in Brazil and Germany.
- Assessment of Hydro's self declared commitment to ICMM's 10 Principles and Position Statements.
- Assessment of Hydro's self-declared application level according to GRI's guidelines.
- Overall impression of the Viability Performance, and its format, considering the information's mutual conformity with the applicable criteria.
- Reconciliation of the reviewed information with the viability information in the Hydro Annual Report 2012.

Conclusion

Based on our review procedures, nothing has come to our attention that causes us to believe that Hydro's 2012 Viability Performance has not, in all material respects, been prepared in accordance with the above stated criteria and that Hydro has not

adhered to the AA1000APS principles inclusivity, materiality and responsiveness to the extent reported on Hydro's website www.hydro.com/reporting2012 under the heading Viability Performance, Hydro adherence to AA1000 2012.
The following is other information that has not affected our conclusion above. The principles inclusivity, materiality and responsiveness apply to the extent reported in the description on www.hydro.com/reporting2012 under the heading Viability Performance Hydro adherence to AA1000 2012 which includes the following points that requires further attention:

- In relation to inclusiveness, Hydro will ensure that the stakeholder participation process is relevant, applied equally across the organization, on-going and active.
- In relation to materiality, areas such as climate change, biodiversity, waste treatment and traditional peoples' areas, integrity and human rights as well as safety and security will be even higher on the agenda in the coming years.
- In relation to responsiveness, Hydro will work to ensure timeliness in responses and work further on implementation in large projects, new countries, new operations and new issues. Hydro will stay committed to and have understanding for cultural differences and that change takes time.

Oslo, March 12, 2013

KPMG AS

Arne Frogner
State Authorized Accountant

Åse Bäckström
Head of Climate Change & Sustainability

[1] A review provides a limited level of assurance which is deemed as being equal to a moderate level of assurance as defined by AA1000AS.

Facts and figures

Society

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

Geographical distribution of employees and payroll

	Number of employees 1)					Payroll (NOK million)				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Norway	**3,859**	4,045	4,146	4,421	6,019	**2,596**	2,692	2,915	3,023	3,757
Germany	**4,304**	4,352	4,373	4,417	4,553	**1,855**	1,908	1,950	1,937	1,986
France	**1,382**	1,437	1,432	1,468	1,785	**485**	516	508	582	581
Italy	**1,084**	1,129	1,159	1,211	1,287	**352**	393	365	381	392
Great Britain	**425**	430	442	453	506	**141**	134	144	136	168
Spain	**665**	707	806	1,005	1,051	**277**	253	260	317	269
Poland	**155**	159	151	65	188	**20**	23	24	18	24
Austria	**419**	430	448	408	415	**197**	206	209	193	197
Slovakia	**487**	480				**71**	78			
Other	**1,331**	1,708	2,228	2,279	2,850	**471**	580	631	773	878
Total EU	**14,111**	10,832	11,039	11,306	12,635	**3,869**	4,091	4,092	4,337	4,495
Other Europe	**86**	80	66	63	81	**94**	118	89	77	78
Total Europe	**14,197**	14,957	15,251	15,790	18,735	**6,559**	6,901	7,096	7,436	8,330
USA	**1,524**	1,602	1,497	1,504	1,967	**529**	485	501	585	616
Brazil	**4,922**	4,722	459	411	432	**1,182**	999			
Other Americas	**316**	364	769	703	837	**104**	31	125	87	78
Asia	**586**	643	833	691	532	**83**	84	70	58	51
Australia	**21**	525	544	561	563	**514**	407	350	302	259
Total outside Europe	**7,549**	7,698	4,102	3,870	4,331	**2,412**	2,006	1,046	1,032	1,003
Total [2)]	**21,566**	22,813	19,353	19,660	23,066	**8,971**	8,907	8,142	8,468	9,333

1) Per 31 December

1) Per 31 December

All figures include Extruded Products, which is reported as discontinued operations in Hydro's financial statements.

The decrease in 2012 followed closures and divestments as well as improvement programs in all business areas.

The increase in number of employees from 2010 to 2011 was mainly due to the acquisition of Vale's former aluminium business in Brazil. Earlier reductions are mainly due to restructuring processes following the financial crises in 2008 and 2009, and divestment of Hydro Polymers to the British company Ineos and Hydro Production Partner to the German company Bilfinger Berger in 2008.

Current income tax

NOK million	**2012**	2011	2010	2009	2008
Norway	**755**	1 256	1 198	568	1 002
Germany	**229**	134	98	35	230
France	**8**	32	47	34	68
Italy	**(4)**	15	17	32	63
Great Britain	**-**	-	-	(4)	-
Spain	**16**	-	(1)	7	(13)
Poland	**1**	1	3	-	3
The Netherlands	**-**	3			
Austria	**32**	26	25	20	45
Slovakia	**75**	129			
Other	**14**	34	140	17	80
Total EU	**371**	374	329	141	476
Switzerland	**43**	24			
Other Europe	**-**	1	3	4	5
Total Europe	**1 169**	1 655	1 529	713	1 483
USA	**-**	4	(1)	11	(42)
Canada	**37**	89			
Brazil	**42**	102			
Other Americas	**15**	7	93	19	196
Asia	**1**	7	5	4	3
Australia and New Zealand	**8**	28	27	(44)	178
Total outside Europe	**103**	237	123	(10)	335
Total	**1 272**	1 892	1 652	703	1 818

All figures include Extruded Products, which is reported as discontinued operations in Hydro's financial statements.

People

Diversity in management

	Women					Non-Norwegians				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Board of directors (11 members) [1)]	**27%**	30%	33%	33%	33%	**27%**	20%	11%	-	-
Corporate assembly	**35%**	33%	33%	33%	33%	-	-	-	-	-
Corporate management board	**25%**	20%	20%	18%	22%	**25%**	20%	20%	-	-
Top 50 managers	**17%**	19%	21%	19%	19%	**28%**	27%	25%	-	13%
Top 200 managers	**19%**	18%	16%	18%	17%	**53%**	50%	43%	-	35%

1) Three of the board members are employee representatives. All are men.

Diversity in Norway

Women and men at different levels

	Women					Men				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Managers	**21%**	20%	20%	20%	21%	**79%**	80%	80%	80%	79%
Salaried employees	**31%**	31%	32%	41%	44%	**69%**	69%	68%	59%	56%
Hourly paid	**14%**	13%	12%	12%	13%	**86%**	87%	88%	88%	87%
Total	**19%**	18%	19%	19%	19%	**81%**	82%	81%	81%	81%

An adjustment in the wage system in 2010 moved a large number of technical positions, including first line supervisors, from hourly paid to salaried employees. The greater proportion of them is men, causing a significant increase in the proportion of men in the category salaried employees. The change had only limited effect on the salary level.

Recruitment

	Women					Men				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Managers	**47%**	30%	-	29%	33%	**53%**	71%	100%	71%	67%
Salaried employees	**33%**	13%	35%	29%	51%	**67%**	71%	65%	71%	49%
Hourly paid	**21%**	14%	16%	5%	21%	**79%**	95%	84%	95%	79%
Total	**28%**	19%	20%	21%	30%	**72%**	81%	80%	79%	70%

98 persons were employed in 2012, compared to 80 persons in 2011.

Part-time employees in Norway

	2012	2011	2010	2009	2008
Women	**10%**	11%	4.8%	10%	12%
Men	**1.5%**	1.9%	0.4%	1.5%	2.0%

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

Health and safety

	2012	2011	2010	2009	2008
Total recordable injuries (TRI) employees [1]					
Employees	**3.4**	3.8	3.7	2.9	3.9
Contractors	**4.4**	2.6			
Lost-time injuries (LTI) [1]					
Employees	**1.9**	2.0	1.9	1.7	2.0
Contractors	**1.8**	1.0	0.4	0.4	0.9
Total fatal accident rate [2]	**2.8**	3.2	2.4	2.8	2.8
Fatality rate, employees [2]	**1.6**	1.4	2.1	1.5	1.7
Fatality rate, contractors [2]	**4.8**	5.9	3.1	5.2	6.1
Total number of fatal accidents	**0**	3	0	3	3
Number of fatal accidents, employees	**0**	1	0	0	2
Number of fatal accidents, contractors	**0**	2	0	3	1
Sick leave, percent	**3.2**	3.1	3.3	3.7	3.4

1) Per million working hours. The numbers include discontinued operations.

2) Per 100 million working hours, five-year rolling average

Environment

Greenhouse gases

Million tonnes CO2e	**2012**	2011	2010	2009	2008
CO_2	**7.0579**	7.1405	7.3699	7.0971	7.0089
CH_4	**0.0001**	0.0001	0.0001	0.0002	0.0001
N_2O	**0.0002**	0.0003	0.0003	0.0002	0.0000
PFC	**0.3126**	0.3535	0.3975	0.5400	0.9575
Total	**7.3708**	7.4944	7.7678	7.6375	7.9665

The reductions of climate gas emissions since 2008 is a result of process improvements and reduced production in our consolidated activities. The reduction in PFC emissions mainly resulted from the closure of Hydro's remaining Søderberg production in 2009, as well as improved operations. Greenhouse gas emissions include plants owned more than 50 percent by Hydro.

Greenhouse gas emissions from Hydro`s ownership equity

Million tonnes CO2e	**2012**	2011	2010	2009	2008
Bauxite & Alumina	**3.5**	3.5	3.5	3.4	2.8
Metal production	**3.5**	3.7	3.7	3.4	4.5
Downstream production	**0.4**	0.3	0.3	0.3	0.3
Remelters	**0.1**	0.1	0.1	0.1	0.1
Electricity generation	**5.8**	7.3	6.2	5.3	6.4
Total	**13.4**	15.0	13.9	12.5	14.1

Greenhouse gas emissions based on Hydro's ownership equity as per December 31, 2012. Direct emissions from production in Bauxite & Alumina, Primary Metal, and downstream operations as well as from the remelters are comparable to Scope 1 emissions as defined by WBCSD/WRI GHG Protocol. Emissions from electricity generation are based on electricity consumption and IEA "CO2 emissions from Fuel Consumption 2008 factors", and are comparable to Scope 2 emissions from purchased electricity. In addition, the reported emissions from electricity include emissions from Hydro's ownership equity in the Qatalum gas-fired power plant. All figures include historical emissions from current operations.

Energy consumption (PJ, Ownership >50%)

PJ	**2012**	2011	2010	2009	2008
Coal	**16.8**	19.0	18.9	15.1	10.8
Coke	**18.5**	19.7	19.6	13.1	20.7
Electricity	**89.6**	96.5	94.4	95.5	116.9
Natural gas	**9.1**	10.5	11.1	9.9	10.9
Natural gas liquids	**1.9**	1.4	1.4	1.3	1.6
Oil	**28.9**	26.1	26.9	29.9	25.6
Other	**4.3**	4.7	4.8	3.3	5.9
Total	**170.2**	178.2	177.5	168.4	192.6

Energy consumption per sector

PJ	**2012**	2011	2010	2009	2008
Bauxite and Alumina	**47.4**	47.6	47.3	47.1	39.23
Electrolysis/Carbon/Casting	**107.6**	114.5	114.3	107.1	136.5
Extrusion, Building System, Automotive	**4.9**	4.3	4.3	3.8	4.3
Remelt	**2.1**	2.4	2.5	2.0	2.1
Rolled Products	**5.7**	5.6	5.7	5.1	5.7
Other	**2.4**	3.7	3.3	3.2	4.7
Total	**170.2**	178.2	177.4	168.4	192.6

Reduction in energy consumption is mainly due to reduced production in our consolidated activities (see comments above) as well as improved operations.

Resource use

1,000 metric tons	**2012**	2011	2010	2009	2008
Alumina	**2 910**	3 114	3 032	3 108	3 733
Aluminium fluoride	**28**	28	27	28	37
Lime	**53**	61	65	58	38
Sodium hydroxide	**626**	665	630	569	498
Sulphuric acid	**20**	17	14	12	12

Other emissions

	2012	2011	2010
Dust and particles	**3 138.6**	2 931.8	3 362.6
Fluorides to air	**507.0**	548.4	598.7
NM VOC	**294.8**	390.0	406.9
Nitrogen oxide (NO_x)	**8 645.5**	9 037.3	9 130.0
PAH to air	**9.3**	8.8	6.2
PAH to water	**0.3**	0.4	0.7
Sulphur dioxide to air	**30 924.8**	29 356.1	30 438.9

PAH to air is reported according to NS 16 PAH and PAH to water is reported according to Borneff 6 PAH. Hydro did not emit ozone depleting substances from its production processes in 2012.

Water consumption

Million m^3	**2012**	2011	2010
Argentina	**0.0455**	0.0459	0.0331
Australia	**0.0943**	0.1881	0.2145
Austria	**0.0022**	0.0026	0.0117
Belgium	**0.0560**	0.0525	0.0511
Brazil	**29.8745**	32.0036	34.7798
Canada	**0.0729**	0.0569	0.0843
China	**0.0378**	0.0372	0.0313
Denmark	**0.0465**	0.0496	0.0491
France	**0.2721**	0.2781	0.3010
Germany	**0.4091**	0.3664	0.5690
India	**0.0003**		
Italy	**1.1942**	1.2737	1.3423
Luxembourg	**0.0708**	0.0730	0.0711
Malaysia	**0.0038**	0.0049	0.0051
Mexico	**0.0184**	0.0194	0.0143
Norway	**39.2327**	45.8000	44.9001
Poland	**0.0086**	0.0071	0.0095
Portugal	**0.0034**	0.0403	0.0476
Slovakia	**0.1389**	0.0047	0.0079
Spain	**0.1935**	0.2187	0.1886
Taiwan		0.0301	
United Kingdom	**0.0793**	0.0854	0.0849
United States	**0.3726**	0.3912	0.4174
Total	**72.2273**	81.0294	83.2135

The systematic mapping of Hydro's water situation in 2011 showed that about three percent of our overall water input came from water-stressed areas, with regard to annual renewable water supply (according to the definition used by WBCSD). See page 93 for a restatement of water consumption in Brazil in 2011.

Total waste

1000 metric tons	**2012**	2011	2010	2009	2008
Spent potlining	**26**	25	35	45	53
Other hazardous waste	**130**	141	145	109	133
Bauxite redsidue (red mud)	**6 071**	6 389	6 222	5 899	5 036
Tailings	**4 215**	4 407	4 933	3 818	
Other Waste	**192**	293	242	114	135
Total	**10 635**	11 255	11 577	9 985	5 357

The reduction in tailings was mainly due to improved bauxite quality giving a better yield of alumina. See page 93 for a restatement on generation of tailings in 2011.

Waste treatment hazardous and other waste

	2012	2011	2010
Energy recovery	**3%**	3%	4%
Landfill	**49%**	40%	44%
Other treatment	**15%**	21%	17%
Reuse/recycling	**33%**	36%	36%

Tailings and bauxite residue are deposited in landfills and are not included in the table above. Combustion without energy recovery is included under other treatment.

Financial provisions

Provisions for future environmental clean-up measures amounted to NOK 227 million as of December 31, 2012, while asset retirement obligations constituted NOK 1,509 million. The latter includes costs related to disposal of spent potlining, closures of mines and bauxite residue (red mud) deposits, and Norwegian power plant concessions to be reverted to the Norwegian government. See also note 31 in the consolidated financial statements.

GRI index

We use the Global Reporting Initiative's (GRI) G3 guidelines for voluntary reporting of sustainable development. The guidelines comprise economic, environmental and social dimensions relating to an enterprise's activities, products and services. GRI collaborates with the United Nations Environment Programme and UN Global Compact.

We believe that our reporting practice is consistent with GRI's reporting principles in all material respects . We report according to a B+ level as defined by the GRI G3 guidelines, and include the GRI Mining & Metals supplement in our reporting. This has been confirmed by our external auditor KPMG, see page 99. An electronic version of the GRI Index, including the full definition of each indicator and references to specific sections in this report as well as additional information, can be found on www.hydro.com/gri

UN Global Compact Communication on Progress

We support the principles of the UN Global Compact. Human rights, international labor standards, working against corruption and environmental considerations are fundamental to our approach to corporate responsibility.

The Global Compact was formed at the initiative of the former UN Secretary General, Kofi Annan, in 1999, because the UN wants business and industry to be more closely associated with the UN's work. Companies that sign the Global Compact agree to support 10 principles regarding human rights, labor standards, the environment, anti-corruption, and to communicate annually on progress.

Hydro has played an active role in the Global Compact since its formation. Our commitment is expressed by the President & CEO in his letter to shareholders on page 6 of this report. The table below provides a summary of our progress in relation to the Compact's 10 principles. A more complete report can be found at www.hydro.com/globalcompact

Table 1 UN global compact

		Page
Human rights		
Principle 1	Support and respect the protection of internationally proclaimed human rights	7, 11, 18, 20-21, 70-74
Principle 2	Make sure not to be complicit in human rights abuses	70-74
Labor standards		
Principle 3	Uphold the freedom of association and the effective recognition of the right to collective bargaining	20-21, 72-73, 77-78
Principle 4	Elimination of all forms of forced and compulsory labor	72-74
Principle 5	Effective abolition of child labor	72-74
Principle 6	Eliminate discrimination in respect of employment and occupation	11, 20-22, 70-73, 81-82
Environment		
Principle 7	Support a precautionary approach to environmental challenges	7, 11, 18-20, 60-70, 73-74, 86-90
Principle 8	Undertake initiatives to promote greater environmental responsibility	7, 11, 18-20, 60-70, 73-74, 86-90
Principle 9	Encourage the development and diffusion of environmentally friendly technologies	7, 11, 18-20, 60-70, 73-74, 86-90
Anti-corruption		
Principle 10	Work against all forms of corruption, including extortion and bribery	7, 11, 20-21, 70-74

03: Financial and operating performance

QUICK OVERVIEW

Hydro had underlying EBIT of NOK 1,158 million in 2012 compared with NOK 5,982 million in the previous year. Low aluminium and alumina prices had a significant effect on underlying results for the year. Relentless focus on reducing costs and improving operations generated substantial savings partly offsetting the negative market effects.

We delivered 3.3 million metric tons of casthouse products to internal and external customers from casthouses that are integrated with our primary aluminium plants, and from remelt facilities close to our customers in Europe and the United States.

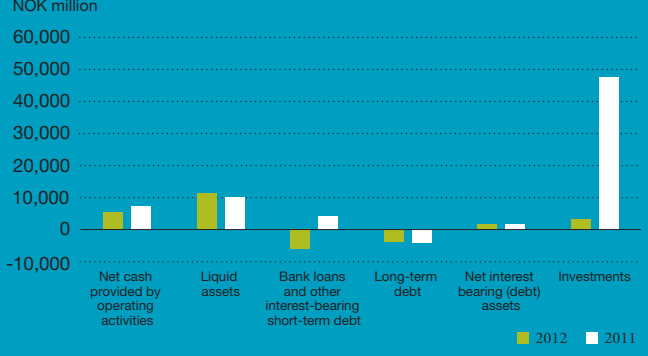
In 2012, we shipped approximately 910,000 mt of rolled products from six European plants and our plant in Malaysia. Our network of extrusion plants delivered about 510,000 mt of extruded products. Our energy business produced around 10.3 TWh of hydroelectric power during the year.

In 2012, cash provided by operating activities declined to NOK 5.4 billion from NOK 7.4 billion in the previous year.

Underlying EBIT

NOK million	2012	2011
Bauxite & Alumina	**(791)**	887
Primary Metal	**314**	2 486
Metal Markets	**208**	441
Rolled Products	**640**	673
Energy	**1 459**	1 883
Other and eliminations	**(672)**	(389)
Underlying EBIT	**1 158**	5 982

Liquidity and financial position



Financial and operating review

About our reporting - Discontinued operations
On October 15, 2012, Hydro announced an agreement with Orkla ASA to combine their respective extrusion profile, building systems and tubing businesses within a new joint venture company owned 50 percent by each party. This will include all of Hydro's Extruded Products activities. Completion of the transaction is expected to take place in the first half of 2013. See note 5 to the consolidated financial statements later in this report for more information on the agreement.

Following the agreement, operating results for Hydro's Extruded Products are presented net of financial items and tax as Income (loss) from discontinued operations and **excluded from reported EBIT and underlying EBIT.** All prior periods in this report are reclassified accordingly. In addition, depreciation of property, plant and equipment for Extruded Products is excluded from operating results in periods subsequent to the date of the agreement.

Assets and liabilities related to Extruded Products are presented as **assets held for sale** in Hydro's consolidated balance sheet as of December 31, 2012. Assets and liabilities in prior periods have not been reclassified.

Summary of financial and operating results

Key financial information

NOK million, except per share data	**Year 2012**	Year 2011
Revenue	**64 181**	71 500
Earnings before financial items and tax (EBIT)	**432**	10 068
Items excluded from underlying EBIT [1]	**725**	(4 086)
Underlying EBIT	**1 158**	5 982
Underlying EBIT :		
Bauxite & Alumina	**(791)**	887
Primary Metal	**314**	2 486
Metal Markets	**208**	441
Rolled Products	**640**	673
Energy	**1 459**	1 883
Other and eliminations	**(672)**	(389)
Underlying EBIT	**1 158**	5 982
Underlying EBITDA	**5 687**	10 497
Underlying income (loss) from continuing operations	**509**	3 947
Underlying income (loss) from discontinued operations	**(5)**	(1)
Underlying net income (loss)	**504**	3 947
Underlying earnings per share [2]	**0.26**	1.89
Net income (loss)	**(1 246)**	6 749
Earnings per share [2]	**(0.61)**	3.41
Financial data:		
Investments [3]	**3 382**	47 510
Adjusted net interest-bearing debt excluding equity accounted investments (EAI) [4]	**(8 269)**	(12 507)

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

2) 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.

3) Investments exclude amounts relating to Extruded Products for all periods presented. Investments for the full year 2011 include amounts relating to the acquisition of Vale Aluminium amounting to NOK 43,376 million for the full year 2011.

4) See note 35 Capital Management in Hydro's Financial statements - 2012 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. The corresponding amount for 2011 is presented on the same basis as 2012.

Underlying EBIT declined significantly to NOK 1,158 million in 2012 compared with NOK 5,982 million in 2011. Underlying net income fell to NOK 504 million from NOK 3,947 million in the previous year. Low aluminium and alumina prices had a significant effect on underlying results for the year.

Weak global economic conditions contributed to low and volatile aluminium prices in 2012. However, relentless focus on reducing cost and improving operations generated substantial savings partly offsetting the negative market effects. Primary Metal's improvement program contributed more than NOK 1 billion to underlying results compared to 2009. New initiatives have been implemented for Bauxite & Alumina. In February, 2013, Hydro announced a new improvement program targeting savings of NOK 200 million for its Corporate Center in Oslo. Hydro decided to close production at its Kurri Kurri plant in Australia due to the weak economic environment, low metal prices together with the strong Australian dollar. Higher cost remelting at smelter casthouses has been significantly reduced.

Bauxite production reached record levels for the year due to improved operational stability. However, underlying results for Bauxite & Alumina declined, heavily influenced by low LME-linked alumina prices and increased energy costs.

Underlying EBIT for Primary Metal decreased significantly in 2012 mainly driven by lower realized aluminium prices partly offset by a decline in the cost of key raw materials. Fixed costs declined further compared to the previous year and were also impacted by the curtailment of the Kurri Kurri plant in Australia. During the year, Qatalum delivered a good production performance and operating costs within the first quartile on the industry cost curve.

Excluding inventory and currency effects, underlying EBIT for Metal Markets decreased somewhat mainly due to lower sales volumes.

Rolled Products underlying results declined somewhat but remained solid despite weak market developments and slightly lower shipments.

Underlying EBIT for Energy decreased compared to 2011 due to significantly lower prices partly offset by higher production.

Operating cash flow was NOK 5.4 billion for the year. Net cash used on investments amounted to NOK 3.4 billion. Hydro's net cash position was around NOK 1.7 billion at the end of 2012.

Hydro's Board of Directors proposes to pay a dividend of NOK 0.75 per share for 2012 reflecting the company's strong commitment to provide a cash return to its shareholders and strong financial position.

Reported EBIT and Net income

Reported Earnings before financial items and tax amounted to NOK 432 million in 2012 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 and other items amounting to positive NOK 125 million.

In the previous year, reported EBIT amounted to NOK 10,068 million including revaluation and divestment gains of NOK 5,512 million and impairment and rationalization charges of NOK 1,244 million mainly relating to Kurri Kurri. Reported EBIT also included other items of NOK 182 million mainly relating to unrealized derivative losses.

In 2012 Hydro incurred a loss from continuing operations of NOK 718 million including net foreign exchange loss of NOK 280 million. In the previous year, income from continuing operations amounted to NOK 7,251 million including net foreign exchange losses of NOK 963 million. The net currency loss in 2012 and 2011 related mainly to debt denominated in US dollars.

Loss from discontinued operations amounted to NOK 528 million in 2012 including impairment and rationalization charges of NOK 372 million and a loss on disposal of Portalex amounting to NOK 144 million. In the prior year, loss from discontinued operations amounted to NOK 502 million including impairment and rationalization charges of NOK 362 million and about NOK 150 million relating to write-downs of deferred tax assets.

In total, Hydro incurred a net loss of NOK 1,246 million in 2012, compared with net income of NOK 6,749 million in 2011.

Operational overview

Key Operational information [5]	**Year 2012**	Year 2011	% change prior year
Alumina production (kmt)	**5 792**	5 827	(1) %
Bauxite production (kmt)	**9 221**	8 151	13 %
Primary aluminium production (kmt)	**1 985**	1 982	-
Realized aluminium price LME (USD/mt) [6]	**2 080**	2 480	(16) %
Realized aluminium price LME (NOK/mt) [6]	**12 047**	13 884	(13) %
Realized NOK/USD exchange rate	**5.79**	5.60	3 %
Metal products sales, total Hydro (kmt) [7]	**3 254**	3 303	(1) %
Rolled Products sales volumes to external market (kmt)	**909**	929	(2) %
Power production (GWh)	**10 307**	9 582	8 %

5) Amounts include Hydro's proportionate share of production and prices in equity accounted investments. Alumina and bauxite volumes include acquired Vale aluminium assets for full year in 2011.

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

7) Sales from casthouses (incl. Neuss), remelters and third party sources.

Bauxite & Alumina
Bauxite & Alumina generated total revenues of about NOK 13 billion in 2012. Bauxite production in Paragominas reached record levels amounting to 9.2 million mt for the year. Alumina production from Alunorte amounted to 5.8 million mt for the year. Bauxite & Alumina sourced roughly 1.4 million mt of alumina in 2012. The business area employs around 3,400 people.

Primary Metal
Primary Metal generated about NOK 27 billion in total revenues in 2012. Production of electrolysis metal amounted to 2 million mt, from our plants in Australia, Brazil, Canada, Norway, Qatar and Slovakia. We delivered 2.3 million mt of casthouse products to internal and external customers, from casthouses which are integrated with our primary aluminium plants. Deliveries included about 0.8 million mt of extrusion ingot, 0.3 million mt of sheet ingot and 0.5 million mt of foundry alloys and wire rod. We also sold about 0.6 million mt of standard ingot. The business area employs around 3,800 people.

Metal Markets
Metal Markets generated total revenues of around NOK 40 billion in 2012. The business area employs around 700 people at plants and offices in Asia, Europe and North America. Our six remelters in Europe, two in the U.S. and one in Asia, produced approximately 550,000 mt of metal products in 2012. We sold 2.9 million mt of metal products last year, including deliveries from the casthouses integrated with our primary smelters. Of this figure, we sold approximately 2.5 million mt to external customers.

Rolled Products
Rolled Products generated total revenues of approximately NOK 20 billion in 2012. The business area has locations in 15 countries, and employs about 4,000 people in its rolling mills. In 2012, we shipped approximately 910,000 mt of rolled products from six European plants and our plant in Malaysia.

Energy
Energy generated about NOK 5 billion in total revenues in 2012. The business area employs around 200 people, mainly in Norway. We produced 10.3 TWh of renewable hydroelectric power, well above our normal annual production. Production during 2012 was impacted by a strong hydrological balance through the year, ending at normal levels as of year end.

Market developments and outlook

Market statistics [1]	Year 2012	Year 2011	% change prior year
NOK/USD Average exchange rate	**5.82**	5.61	4 %
NOK/USD Balance sheet date exchange rate	**5.57**	5.99	(7) %
NOK/EUR Average exchange rate	**7.47**	7.79	(4) %
NOK/EUR Balance sheet date exchange rate	**7.34**	7.75	(5) %
Bauxite & Alumina:			
Alumina price - Platts PAX FOB Australia (USD/t)	**319**	375	(15) %
Global production of alumina (kmt)	**93 528**	90 374	3 %
Global production of alumina (ex. China) (kmt)	**54 761**	53 940	2 %
Primary Metal and Metal Markets:			
LME three month average (USD/mt)	**2 050**	2 420	(15) %
LME three month average (NOK/mt)	**11 908**	13 539	(12) %
Global production of primary aluminium (kmt)	**47 067**	45 580	3 %
Global consumption of primary aluminum (kmt)	**46 613**	44 883	4 %
Global production of primary aluminium (ex. China) (kmt)	**25 694**	26 370	(3) %
Global consumption of primary aluminum (ex. China) (kmt)	**25 718**	25 488	1 %
Reported primary aluminium inventories (kmt)	**8 173**	7 445	10 %
Rolled Products:			
Consumption Rolled Products - Europe (kmt)	**4 101**	4 292	(4) %
Consumption Rolled Products - USA & Canada (kmt)	**4 174**	4 139	1 %
Energy:			
Southern Norway spot price (NO2) (NOK/MWh)	**218**	360	(39) %
Nordic system spot price (NOK/MWh)	**234**	367	(36) %

1) Industry statistics have been derived from analyst reports, trade associations and other public sources unless otherwise indicated. Recent information is based partly on estimates and is subject to revision as new information becomes available. As a result, differences between general market developments and actual Hydro volumes are not necessarily indicative of significant changes in market share. Amounts presented in prior reports may have been restated based on updated information. Currency rates have been derived from Norges Bank.

Bauxite and alumina

The global alumina market was balanced at the end of 2012 influenced by supply disruptions, mainly in India. Chinese alumina imports for 2012 amounted to 5 million mt, up from 1.9 million mt in 2011, driven by favorable price differentials and limited bauxite availability.

Alumina prices increased throughout 2012, ranging from a low of USD 303 per mt in January and ending the year with a high of USD 333 per mt. Prices averaged USD 319 per mt for the year in total. As a percentage of LME, alumina prices varied during the year due to the volatile LME ranging between 13.5 percent and 17.4 percent. Average prices for 2012 were 15.6 percent of LME, the same as the previous year.[2]

During the year the price of imported bauxite in China rose more than ten percent due to temporary restrictions and export tax on Indonesian exports. See Business description - Bauxite & Alumina - Industry overview - "Bauxite and alumina price developments" for more information.

2) Due to existing sales contracts, Hydro has limited volumes available for sale for the next few years. As a result, short-term alumina market developments have limited influence on Hydro's earnings for the period.

Primary aluminium

Three-month LME aluminium prices were relatively weak throughout the year, averaging about USD 2,120 per mt in the first half of 2012 compared with an average of USD 1,980 per mt in the second half of 2012. Prices were volatile, reaching a peak of USD 2,350 per mt in late February and a low of USD 1,830 per mt in August. The year ended with a price around USD 2,100 per mt.

Global demand for primary aluminium (excluding China) increased moderately compared to 2011. Corresponding production decreased, mainly due to closures and substantial production disruptions. As a result, the market was relatively balanced in 2012. Annualized production increased in the final quarter of 2012, amounting to 25.6 million mt. Annualized consumption declined, however, amounting to 25.1 million mt. New greenfield projects are expected to come on stream during 2013. Demand for primary aluminium is expected to grow by about 2-4 percent in 2013.

Demand for primary metal in China increased around 8 percent in 2012, from 19.4 million mt in 2011 to 20.9 million mt in 2012. The market was largely balanced throughout 2012 and is expected to remain so in 2013.

LME stocks increased slightly from 5.0 million mt at the end of 2011 to around 5.2 million mt at the end of 2012. Most of the metal in warehouses continues to be owned by financial investors. Total inventories, including unreported inventories, were estimated to be around 12.4 million mt at the end of 2012.

Demand for extrusion ingot and foundry alloys in Europe weakened during 2012 and is expected to remain soft into 2013. Consumption of sheet ingot was stable compared to 2011. No significant increase in consumption is expected in 2013. The market for wire rod exhibited a solid increase during 2012 and is expected to continue with a positive development into 2013.

In the U.S. and Asia, demand for extrusion ingot and foundry alloys has been positive during 2012 and is expected to remain so in 2013.

Rolled products

The European market for flat rolled products declined compared to the previous year. Most of the decline occurred in the first half of 2012 due to strong demand and restocking activities in the first half of 2011. Demand in the second half of 2012 remained around the same soft level experienced in the corresponding period of 2011. Margins for standard products fell sharply compared to the high margins achieved in 2011. This was mainly due to rising ingot premiums, increased import pressure and the overall weak economic environment.

Demand in the automotive segment was stable. Effects of lower car production were offset by increased use of aluminium components, for premium brands in particular. Car production continues to be supported by strong demand for premium brands in China. Due to the weak economy in Southern Europe in particular, demand within building and construction markets declined further from the weak level experienced in 2011. Demand in Northern Europe remained firm for this market. Consumption in the beverage can market increased in 2012 while shipments of foil from European producers were impacted by imports from Asia. Demand for general engineering applications declined somewhat due to lower industrial activity.

Energy

In the first half of 2012, Nordic electricity spot prices were generally at significantly lower levels than the first half of 2011, mainly due to a strong hydrological balance from the beginning of the year. Prices gradually increased during the autumn due to a deteriorating hydrological balance. By the end of 2012, water reservoirs in Norway were 70 percent of full capacity, which is slightly below normal.

In 2012, total power consumption in the Nordic market increased by 6 TWh to 386 TWh. Total power production increased by 26 TWh to 401 TWh. Power production in Norway reached a record level, amounting to 146 TWh in 2012. This was 20 TWh higher than 2011.

Additional factors impacting Hydro

Hydro has sold forward around 60 percent of its expected primary aluminium production for the first quarter of 2013 at a price level of around USD 2,050 per mt.[1)] This excludes volumes from Qatalum.

Hydro's water reservoirs and snow levels ended close to normal at the end of 2012. Production is expected to be seasonally high through the first quarter of 2013.

1) From February 2013 we have changed our pricing formula for metal sales. Prices are now fixed mainly one month prior to production. As a result, and due to the hedging of product inventories, Hydro's realized aluminium prices lag LME spot prices by around 1.5 to 2 months.

Underlying EBIT - Business areas

To provide a better understanding of Hydro's underlying performance, the following discussion of operating performance excludes certain items from EBIT (earnings before financial items and tax) and net income, such as unrealized gains and losses on derivatives, impairment and rationalization charges, effects of disposals of businesses and operating assets, as well as other items that are of a special nature or are not expected to be incurred on an ongoing basis. See section later in this report, Items excluded from underlying EBIT and net income, for more information on these items.

Bauxite & Alumina

Operational and financial information	**Year 2012**	Year 2011	% change prior year
Underlying EBIT (NOK million)	**(791)**	887	>(100) %
Underlying EBITDA (NOK million)	**959**	2 480	(61) %
Alumina production (kmt) [1]	**5 792**	5 827	(1) %
Sourced alumina (kmt)	**1 390**	1 958	(29) %
Total alumina sales (kmt) [2]	**7 227**	7 278	(1) %
Realized alumina price (USD/mt) [3]	**286**	333	(14) %
Apparent alumina cash cost (USD/mt) [4]	**259**	266	(3) %
Bauxite production (kmt) [5]	**9 221**	8 151	13 %
Sourced bauxite (kmt) [6]	**8 692**	7 435	17 %

1) Including Alunorte on a 100 percent basis. Alumina production volumes include acquired Vale aluminium assets for full year in 2011.

2) Including Hydro's own production and third party contracts.

3) Weighted average of own production and third party contracts, excluding hedge results.

4) Apparent integrated alumina cash production cost based on cost of produced alumina and cost of alumina sourced on contracts. Paragominas bauxite is included at cost. MRN bauxite is included at contract price.

5) Paragominas on wet basis (100 percent). Bauxite production volumes include acquired Vale aluminium assets for full year in 2011.

6) 40 percent MRN off take from Vale and 5 percent Hydro share on wet basis.

Bauxite & Alumina incurred an underlying loss in 2012, declining substantially from the previous year, mainly due to lower LME-linked alumina prices[7] and higher energy costs.

Bauxite production improved throughout the year reaching record volumes for the 2012. Alumina production at Alunorte declined slightly compared to 2011.

Fuel costs increased for Alunorte following a change in the collection of ICMS value-added taxes in the state of Para implemented in March, 2012. A decision was made to reinstate the ICMS tax exemption as of October 1. Additional costs relating to the taxes amounted to roughly NOK 300 million for 2012.

Lower LME-linked alumina prices have had a significant negative effect on underlying results for Bauxite & Alumina for 2012. Hydro has implemented a new improvement program targeting saving and improvements of NOK 1 billion by the end of 2015.

7) The majority of our alumina is sold linked to LME with a one month delay

Primary Metal

Operational and financial information [1]	Year 2012	Year 2011	% change prior year
Underlying EBIT (NOK million)	**314**	2 486	(87) %
Underlying EBITDA (NOK million)	**2 311**	4 671	(51) %
Realized aluminium price LME (USD/mt) [2]	**2 080**	2 480	(16) %
Realized aluminium price LME (NOK/mt) [2]	**12 047**	13 884	(13) %
Realized premium above LME (USD/mt) [3]	**298**	333	(11) %
Realized premium above LME (NOK/mt) [3]	**1 726**	1 866	(8) %
Realized NOK/USD exchange rate	**5.79**	5.60	3 %
Primary aluminium production (kmt)	**1 985**	1 982	-
Casthouse production (kmt)	**2 248**	2 463	(9) %
Casthouse sales (kmt)	**2 266**	2 451	(8) %

1) Operating and financial information includes Hydro's proportionate share of underlying profit (loss), production, prices, premiums and exchange rates in equity accounted investments.

2) Including effect of strategic LME hedges (hedge accounting applied).

3) Average realized premium above LME for total metal products sold from Primary Metal.

Operational and financial information Qatalum (50%)	Year 2012
Revenue (NOK million)	**4 292**
Underlying EBITDA (NOK million)	**998**
Underlying EBIT (NOK million)	**(22)**
Underlying Net income (NOK million)	**(217)**
Primary aluminium production (kmt)	**302**
Casthouse sales (kmt)	**320**

		Primary aluminium		Casthouse production	
Primary aluminium and casthouse production (kmt) [4]	Location	2012	2011	2012	2011
Albras	Brazil	**446**	381	**444**	379
Karmøy	Norway	**190**	184	**194**	218
Årdal	Norway	**204**	205	**279**	308
Sunndal	Norway	**314**	300	**393**	420
Høyanger	Norway	**63**	62	**117**	117
Søral (Hydro's 49.9% share)	Norway	**46**	45	**60**	59
Slovalco	Slovakia	**161**	163	**178**	184
Neuss	Germany	**-**	53	**-**	174
Kurri Kurri	Australia	**73**	180	**83**	184
Tomago (12.4% share)	Australia	**68**	67	**67**	66
Qatalum (50% share)	Qatar	**302**	225	**314**	234
Alouette (20% share)	Canada	**119**	116	**118**	116
Total production Primary Aluminium		**1 985**	1 982	**2 248**	2 463

4) Production volumes for part owned companies represent our proportion of total production. For financial reporting purposes, Søral and Qatalum are accounted for as equity accounted investments, while Tomago and Alouette are consolidated on a proportional basis. Slovalco and Albras are fully consolidated in terms of financial results and volumes. Albras includes production from March 1, 2011 following the completions of the Vale Aluminium acquisition. The Neuss smelter was transferred to our Rolled Products operations in 2011.

Underlying EBIT for Primary Metal decreased significantly in 2012 mainly driven by lower realized aluminium prices partly offset by a decline in the cost of key raw materials.

Lower realized aluminium prices[5] had a negative impact on underlying EBIT of about NOK 2.9 billion compared with 2011. LME linked alumina costs declined, together with lower costs for power. Carbon costs were stable. Fixed costs declined somewhat impacted by the closure of the Kurri Kurri plant in Australia. Our USD 300 per mt cost improvement program was on track, delivering cumulative savings of USD 235 per mt by the end of 2012 compared to 2009.

Underlying results for Qatalum were stable for the year. Higher volumes following the completion of the ramp-up of the plant in 2011 had a significant positive impact on underlying results. However, the positive effects were partly offset by lower realized aluminium prices, together with higher energy costs relating to a fire in the power plant cooling tower amounting to roughly NOK 150 million for the year (Hydro's share). In addition, underlying results for 2011 included insurance proceeds relating to final settlement on the power outage in 2010 amounting to about NOK 140 million (Hydro's share).

5) Including effect of strategic LME hedges (hedge accounting applied). Realized aluminium prices lag the LME price developments by approximately 1.5 - 2 months.

Metal Markets

Operational and financial information	**Year 2012**	Year 2011	% change prior year
Underlying EBIT (NOK million)	**208**	441	(53) %
Currency effects [1]	**(145)**	(34)	>(100) %
Ingot inventory valuation effects [2]	**(24)**	71	>(100) %
Underlying EBIT excl. currency and ingot inventory effects	**377**	404	(7) %
Underlying EBITDA (NOK million)	**306**	542	(44) %
Remelt production (kmt) [3]	**548**	565	(3) %
Metal products sales excluding ingot trading (kmt) [4]	**2 941**	2 902	1 %
Hereof external sales (kmt)	**2 469**	2 301	7 %

1) Includes the effects of changes in currency rates on sales and purchase contracts denominated in foreign currencies (mainly U.S. dollar and Euro for our European operations) and the effects of changes in currency rates on the fair valuation of dollar denominated derivative contracts (including LME futures) and inventories, mainly translated into Norwegian kroner. Hydro manages its external currency exposure on a consolidated basis in order to take advantage of offsetting positions.

2) Comprised of hedging gains and losses relating to standard ingot inventories in our metal sourcing and trading operations. Increasing LME prices result in unrealized hedging losses, while the offsetting gains on physical inventories are not recognized until realized. In periods of declining prices, unrealized hedging gains are offset by write-downs of physical inventories.

3) Excludes Hannover casthouse production.

4) Includes internal and external sales from primary casthouse operations, remelters and third party metal sources. Volumes from Albras casthouse (51%) as of March 1, 2011.

Remelt production (kmt)	**Location**	**Year 2012**	Year 2011	% change prior year
Europe				
Clervaux	Luxembourg	**95**	97	(2) %
Deeside	United Kingdom	**50**	50	-
Rackwitz	Germany	**80**	87	(8) %
Luce	France	**52**	54	(4) %
Azuqueca	Spain	**69**	71	(3) %
US				
Henderson	Kentucky	**87**	81	7 %
Commerce	Texas	**96**	96	-
Asia				
Hydro Aluminium Taiwan [5]	Taiwan	**18**	29	(38) %
Total remelt production Metal Markets		**548**	565	(3) %

5) Production volumes for the period ending September, 2012 when Hydro completed an agreement for the sale of its remelt plant in Taiwan.

Metal Markets underlying EBIT declined in 2012, impacted by significant negative currency and inventory valuation effects compared to the previous year. Excluding these effects, underlying EBIT decreased somewhat mainly due to lower sales volumes from remelters and high purity products.

Metal product sales excluding ingot trading were relatively stable compared with 2011. Increased volumes from Qatalum were largely offset by plant closures and curtailments including the curtailment of Kurri Kurri, Australia as well as one casthouse production line in Årdal, Norway and the sale of the remelt plant in Taiwan.

Underlying results for our remelt operations continued at a good level in 2012 but declined somewhat due to lower volumes and reduced margins for our European remelters. Total production volumes were somewhat lower as a result of the sale of Taiwan plant in September and lower volumes in our European plants due to a shortage of scrap. This was partly offset by good demand and increased volumes in our U.S. plants in 2012.

Our sourcing and trading activities delivered solid underlying results in 2012 with positive contributions from all operating areas. Underlying results were strong for the first nine months but the full year results were impacted somewhat by weak underlying results in the fourth quarter.

Rolled Products

Operational and financial information	**Year 2012**	Year 2011	% change prior year
Underlying EBIT (NOK million)	**640**	673	(5) %
Underlying EBITDA (NOK million)	**1 093**	1 126	(3) %
Sales volumes to external market (kmt)	**909**	929	(2) %
Sales volumes to external markets (kmt) - Customer business units			
Foil	**117**	121	(3) %
Can beverage	**200**	188	6 %
Other packaging and building	**74**	85	(13) %
Automotive, heat exchanger	**110**	134	(18) %
General engineering	**226**	236	(4) %
Lithography	**181**	165	10 %
Rolled Products	**909**	929	(2) %

Rolled Products production sites Volumes to external market (kmt)	**Location**	**Year 2012**	Year 2011	% change prior year
Grevenbroich / 50% share in Alunorf	Germany	581	578	1 %
Hamburg	Germany	119	132	(10) %
Slim	Italy	54	57	(5) %
Malaysia (99.7% share)	Malaysia	11	14	(21) %
Karmøy	Norway	62	58	7 %
Holmestrand	Norway	81	89	(9) %
Total, excluding internal sales		909	929	(2) %

Underlying EBIT for Rolled Products declined somewhat in 2012 compared to the previous year. Margins improved, impacted by positive currency effects[1)] on export sales. This had a significant positive impact on underlying results but was offset by lower sales volumes and higher costs.

Total sales volumes were slightly lower. Shipments for beverage can and lithography applications increased supported by solid demand. Volumes for other product lines declined mainly due to weaker demand for automotive, heat exchanger and general engineering applications. Heat exchanger, general engineering and automotive volumes were also impacted by the discontinuation of certain product lines and a break-down at the Hamburg hot-rolling mill.

Operating margins excluding currency effects declined slightly influenced by the more short term general engineering business.

1) 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. Offsetting gains and losses on internal hedges are reported as financial items.

Energy

Operational and financial information	Year 2012	Year 2011	% change prior year
Underlying EBIT (NOK million)	**1 459**	1 883	(23) %
Underlying EBITDA (NOK million)	**1 588**	2 018	(21) %
Direct production costs (NOK million) [1]	**493**	468	5 %
Power production (GWh)	**10 307**	9 582	8 %
External power sourcing (GWh) [2]	**8 608**	8 675	(1) %
Internal contract sales (GWh) [3]	**12 500**	12 446	-
External contract sales (GWh) [4]	**1 164**	1 187	(2) %
Net spot sales (GWh) [5]	**5 251**	4 624	14 %

1) Includes maintenance and operational costs, transmission costs, property taxes and concession fees for Hydro as operator.
2) Includes long-term sourcing contracts and industrial sourcing in Germany.
3) Internal contract sales in Norway and Germany, including sales from own production and resale of externally sourced volumes.
4) External contract sales, mainly concession power deliveries and volumes to former Hydro businesses.
5) Spot sales volumes net of spot purchases.

Underlying EBIT for Energy decreased in 2012, mainly due to significantly lower prices partly offset by higher production. The contribution to underlying EBIT from commercial activities declined in 2012 compared to a very strong contribution in 2011. Direct production costs increased in 2012 due to higher transmission costs.

Other and eliminations

Financial information NOK million	Year 2012	Year 2011	% change prior year
Underlying EBIT	**(672)**	(389)	(73) %
of which eliminations	***(50)***	*190*	>(100) %

Eliminations is mainly comprised of unrealized gains and losses on inventories purchased from group companies, which fluctuates with product flows, volumes and margin developments throughout Hydro's value chain.

Items excluded from underlying EBIT and net income

Items excluded from underlying EBIT and net income

To provide a better understanding of Hydro's underlying performance, the items in the table below have been excluded from underlying EBIT (earnings before financial items and tax) and net income.

Items excluded from underlying EBIT are mainly comprised of unrealized gains and losses on certain 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.

Items excluded from underlying net income [1)]

NOK million	Year 2012	Year 2011
Unrealized derivative effects on LME related contracts [2)]	**(109)**	402
Derivative effects on LME related contracts (Vale Aluminium) [3)]	**-**	(74)
Unrealized derivative effects on power and raw material contracts [4)]	**(937)**	(153)
Metal effect, Rolled Products [5)]	**64**	7
Significant rationalization charges and closure costs [6)]	**617**	97
Impairment charges (PP&E and equity accounted investments) [7)]	**1 215**	1 147
(Gains)/losses on divestments [8)]	**(57)**	(1 184)
Transaction related effects (Vale Aluminium) [9)]	**-**	(4 328)
Other effects [10)]	**(68)**	-
Items excluded from underlying EBIT	**725**	(4 086)
Net foreign exchange (gain)/loss [11)]	**280**	963
Calculated income tax effect [12)]	**222**	(179)
Items excluded from continuing operations	**1 227**	(3 301)
Items excluded from discontinued operations [13)]	**523**	500
Items excluded from underlying net income	**1 750**	(2 801)

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

2) Unrealized derivative effects on LME contracts include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, but where hedge accounting is not applied. The amounts include net unrealized gains and losses on derivative contracts relating to operations in all our business areas except for Energy. Certain internal aluminium contracts between Metal Markets and other units are measured at market value by Metal Markets but considered for Hydro's own use by consuming units. The valuation effects are eliminated as part of Other and eliminations, and excluded from underlying results. Unrealized gains and losses on derivative contracts relating to trading activities are not excluded from underlying EBIT, as these are considered to be a normal part of the trading business performance.

3) Linked to the agreement to acquire the majority of Vale's Aluminium business in Brazil (Vale Aluminium), Hydro decided to hedge the majority of the net aluminium price exposure in Vale Aluminium until the end of 2011. The hedges were aimed at mitigating the risk of a weaker aluminium price, securing a robust cash flow from the acquired assets in the transition phase. The significant part of the positions expiring after closing of the transaction were subject to hedge accounting and included in other comprehensive income. The effects of realized positions until February 28, 2011 and unrealized positions until the end of 2011, not subject to hedge accounting, are classified as items excluded from underlying EBIT.

4) Unrealized derivative effects on power and raw material contracts include unrealized gains and losses on embedded derivatives in power contracts for Hydro's own use, as well as financial power contracts used by Primary Metal, including Søral, and Energy for hedging of power prices. Hydro's Energy operations supply electricity for Hydro's own consumption, and have entered into long-term purchase contracts with external power suppliers. Energy accounts for embedded derivatives in certain sourcing contracts and for the corresponding internal supply contracts with consuming units at fair value. These internal purchase contracts are considered for Hydro's own use by the consuming units, while the embedded derivative is recognized at market value in Other and eliminations, and excluded from underlying results. Embedded derivatives in power contracts include exposures to changes in forward prices on aluminium and coal, as well as currency and inflation adjustments. Reported periodic effects are also influenced by changes in the contract portfolio. The majority of physical power-purchase contracts have a long duration and can result in significant unrealized gains and losses on embedded derivatives, impacting the reported results. Embedded derivatives in raw material contracts include exposures to changes in forward prices on aluminium and petroleum coke.

5) Metal effect: Rolled Products' sales prices are based on a margin over the metal price. The pricing, production and logistics process of Rolled Products normally lasts four to five months. As a result, margins are impacted by timing differences resulting from the FIFO (first in, first out) inventory valuation method, due to changing aluminium prices during the process. The effect of potential inventory write-downs is included. Decreasing aluminium prices in Euro results in a negative metal effect on margins, while increasing prices have a positive effect.

6) Rationalization charges and closure costs include costs that are typically non-recurring for individual plants or operations. Such costs involve termination benefits, dismantling of installations and buildings, clean-up activities that exceed legal liabilities, etc.

7) Impairment charges occur in the period when an asset or a group of assets is identified to have lost its value, causing a write-down to the recoverable amount. In most of our impairment situations, there is no single event directly causing the write-down. The loss is therefore not necessarily closely linked to performance in a single period.

8) Gains and losses on divestments include a net gain or loss on divested businesses and/or individual major assets.

9) Effects related to the acquisition of Vale Aluminium on February 28, 2011 include the revaluation gain of Hydro's pre-transaction stake in Alunorte and CAP, gains and losses related to the settlement of pre-existing contracts and agreements, as well as the fair value adjustment of inventory of finished goods sold.

10) Other effects include recognition of pension plan amendments and related curtailments and settlements, etc.

11) Realized and unrealized gains and losses on foreign currency-denominated accounts receivable and payable, funding and deposits, and forward-currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and working capital.

12) In order to present underlying net income on a basis comparable with our underlying operating performance, we have calculated the income tax effect of items excluded from underlying income before tax. In addition, we have adjusted for write-down of deferred tax assets in 2011.

13) Items excluded from discontinued operations are comprised of items excluded from Extruded Products' underlying net income.

Items excluded from underlying EBIT - Business areas

The following includes a summary table of items excluded from underlying EBIT for each of the operating segments and for Other and eliminations.

Items excluded from underlying EBIT [1)]

NOK million	Year 2012	Year 2011
Unrealized derivative effects on currency contracts (Alunorte)	**-**	(1)
Derivative effects on LME related contracts (Vale Aluminium)	**-**	(72)
Unrealized derivative effects on LME related contracts	**(8)**	-
Transaction related effects (Vale Aluminium)	**-**	(4 421)
(Gains)/losses on divestments	**-**	(465)
Bauxite & Alumina	**(8)**	(4 959)
Derivative effects on LME related contracts (Vale Aluminium)	**-**	(1)
Unrealized derivative effects on LME related contracts (Søral)	**-**	(3)
Unrealized derivative effects on LME related contracts	**98**	(143)
Unrealized derivative effects on power contracts (Søral)	**15**	43
Unrealized derivative effects on power contracts	**(240)**	139
Unrealized derivative effects on raw material contracts	**40**	43
Impairment charges	**1 045**	970
Impairment charges (Qatalum)	**30**	-
Rationalization charges and closure costs	**600**	80
Transaction related effects (Vale Aluminium)	**-**	93
Primary Metal	**1 588**	1 221
Unrealized derivative effects on LME related contracts	**11**	(16)
Impairment charges	**76**	-
(Gains)/losses on divestments	**(15)**	-
Metal Markets	**73**	(16)
Unrealized derivative effects on LME related contracts	**(232)**	584
Metal effect	**64**	7
Rationalization charges and closure costs	**17**	17
Rolled Products	**(151)**	608
Unrealized derivative effects on power contracts	**11**	(8)
(Gains)/losses on divestments	**-**	(658)
Energy	**11**	(667)
Unrealized derivative effects on power contracts	**(764)**	(370)
Unrealized derivative effects on LME related contracts	**22**	(20)
Impairment charges	**64**	177
Pension	**(68)**	-
(Gains)/losses on divestments	**(42)**	(60)
Other and eliminations [2)]	**(788)**	(273)
Items excluded from underlying EBIT	**725**	(4 086)

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

Financial income (expense), net

Financial income (expense)			% change
	Year	Year	prior
NOK million	**2012**	2011	year
Interest income	**286**	256	12 %
Dividends received and net gain (loss) on securities	**133**	(53)	>100%
Financial income	**418**	203	>100%
Interest expense	**(393)**	(348)	(13)%
Capitalized interest	**15**	1	>100%
Net foreign exchange gain (loss)	**(280)**	(963)	71 %
Other	**(108)**	(141)	24 %
Financial expense	**(766)**	(1 451)	47 %
Financial income (expense), net	**(348)**	(1 248)	72 %

Net financial expense for the year amounted to NOK 348 million, including a net foreign currency loss of NOK 280 million. The net currency loss in 2012 and 2011 related mainly to debt denominated in US dollars.

Income tax expense

Income taxes amounted to a charge of NOK 803 million in 2012, compared with a charge of NOK 1,569 million in 2011.

Adjusted for losses from equity accounted investments, impairment charges and other losses without tax benefits the effective tax rate was about 38 percent for 2012. The adjusted tax rate reflects the relatively high share of earnings subject to Norwegian power surtax.

For 2011 the adjusted effective tax rate was about 30 percent, reflecting a relatively lower share of earnings subject to power surtax in 2011 compared to 2012. The reported tax rate for 2011 was impacted by significant tax free gains on sales of shares.

Pro forma information

To provide a better understanding of the operating results for Extruded Products, we are providing supplemental pro forma information on developments in underlying EBIT for Extruded Products on the basis of continuing operations consistent with reporting periods prior to the announced Sapa joint venture.

Operational and financial information	**Year 2012**	Year 2011	% change prior year
Earnings before financial items and tax EBIT (NOK million)	**(493)**	(240)	>(100) %
Items excluded from underlying EBIT (NOK million)	**513**	391	31 %
Underlying EBIT (NOK million)	**20**	151	(87) %
Underlying EBITDA (NOK million)	**471**	655	(28) %
Sales volumes to external market (kmt)	**508**	536	(5) %
Sales volumes to external markets (kmt) - sectors			
Extrusion Eurasia	**278**	303	(8) %
Building Systems	**56**	64	(13) %
Extrusion Americas	**104**	101	3 %
Precision Tubing	**69**	69	1 %
Extruded Products	**508**	536	(5) %

Extrusion sales volume per market segment 2012 Volumes to external market (kmt)	**Extrusion Eurasia**	**Extrusion Americas**	**Building Systems**	**Precision Tubing**
Domestic & office equipment	18	12	-	-
Building & construction	105	29	56	-
General Engineering	24	9	-	-
Electrical	21	16	-	-
Transport	53	26	-	56
Other	59	12	-	13
Total	278	104	56	69

Operational information

Extruded Products had total revenues of approximately NOK 18 billion from the sale of aluminium products in 2012. The business area employs around 9,100 people. Our network of extrusion plants, including those dedicated to building systems, delivered 508,000 mt of extruded products. About 75 percent of our total extrusion revenues came from our general extrusion and tubing businesses and 25 percent came from our building systems operations.

Market developments

European demand for extruded aluminium products declined for all market segments compared to 2011, in particular for the solar and the building and construction market segments, and in Southern Europe in particular. Compared to 2011, demand in North America grew substantially with most of the increase supplied by domestic extruders. South American extrusion demand weakened somewhat compared to 2011. Demand for extruded products in the automotive market segment improved for North America and Asia while consumption in South America was stable. In Europe, demand for extruded automotive products declined due to the weak economy.

Weak demand is expected to continue in Europe in the first quarter of 2013, while the outlook for markets outside Europe is more positive.

Underlying EBIT

Pro forma underlying EBIT for Extruded Products declined compared to 2011, heavily impacted by the weakening European markets. Lower costs resulting from significant improvement efforts undertaken throughout the year partly offset the negative market effects. Substantial curtailments, closures and divestments have been executed and Extruded Products generated cost savings close to EUR 60 million for 2012. Efforts to reduce costs and improve operating results will continue.

Volumes were lower as general extrusion demand in Europe declined throughout the year following weak developments in the second half of 2011. Building systems, in particular, fell further on top of substantially lower volumes in the previous year.

However, lower operating costs, together with significant operational improvements and cost reductions mostly offset the effects of the further decline for this business.

Sales volumes and underlying results were stable for our precision tubing business compared to the previous year. The effects of weaker European volumes were offset by strong demand outside Europe and the positive impact of cost reduction measures.

Underlying results for our extrusion operations in the Americas were stable. Shipments in North America were generally in line with market developments. South American volumes were somewhat lower. Continued strong cost control compensated for lost volumes from plant closures and additional operating costs related to the expansion of our Brazilian press operations.

Reconciliation of income from discontinued operations to underlying EBIT NOK million	**Year 2012**	**Year 2011**	% change prior year
Income (loss) from discontinued operations	**(528)**	(502)	(5) %
Items excluded for discontinued operations, net of tax	**523**	500	4 %
Underlying Income (loss) from discontinued operations	**(5)**	(1)	>(100) %
Adjustment for depreciation, financial items and tax	**25**	151	(83) %
Proforma Underlying EBIT Extruded Products	**20**	151	(86) %

Liquidity and capital resources

The table below includes information on Hydro's liquidity, debt, investments and financial position and performance for the years indicated. See note 35 to the consolidated financial statements for more information on Hydro's capital management practices. See the shareholder information section of this report for more information on Hydro's dividend policy, share buybacks and funding and credit rating.

Liquidity and financial position NOK million, except ratios and RoaCE	**Year 2012**	Year 2011
Net cash provided by continuing operating activities	**5 434**	7 432
Cash and cash equivalents	**7 034**	8 365
Short-term investments [1]	**4 343**	1 780
Liquid assets	**11 377**	10 145
Bank loans and other interest-bearing short-term debt	**(5 956)**	(4 248)
Long-term debt	**(3 674)**	(4 190)
Net interest-bearing (debt) assets	**1 747**	1 707
Adjusted net interest-bearing debt excluding equity accounted investments (EAI) [2]	**(8 269)**	(12 507)
Adjusted net interest-bearing debt including EAI [2]	**(14 346)**	(19 895)
Adjusted net interest-bearing debt including EAI / Adjusted equity [3]	**0.19**	0.24
Investments [4]	**3 382**	47 510
Capital employed	**72 097**	83 460
Return on average capital employed (RoaCE)	**(0.6) %**	12.5 %
Adjusted funds from operations / Adjusted net interest-bearing debt	**0.39**	0.42

1) Hydro's policy is that the maximum maturity for cash deposits is 12 months. Cash flows relating to bank time deposits with original maturities beyond three months are classified as investing activities and included in short-term investments on the balance sheet. See note 18 to the consolidated financial statements for more information on short-term investments.
2) Mainly comprised of net unfunded pension obligations after tax, the present value of operating lease obligations and interest-bearing debt held by equity accounted investees. From the third quarter 2012, net interest bearing debt in equity accounted investments is excluded from our quarterly reporting of adjusted interest bearing debt following the termination of Hydro's guarantee of Qatalum debt. We are presenting adjusted interest bearing debt including interest bearing debt held by equity accounted investees and excluding such debt in this annual report. See note 35 to the consolidated financial statements for more information on adjusted net interest-bearing debt and adjusted equity.
3) Adjusted net interest bearing debt ratio and other financial metrics included in this report are calculated including interest bearing debt held by equity accounted investees.
4) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments. Investments exclude amounts relating to Extruded Products for all periods presented. For 2011, investments include NOK 43,376 million related to the acquisition of Vale Aluminium.

Cash flow and liquidity

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

In 2012, cash provided from continuing operating activities of NOK 5.4 billion was sufficient to cover investments of NOK 3.4 billion, as well as dividend payments of NOK 1.7 billion. Net loan proceeds amounted to NOK 2.2 billion including a new NOK 1.5 billion bond maturing in 2019. Sales of non-strategic assets of NOK 0.2 billion represented an additional source of cash. Net cash used in discontinued operations amounted to NOK 0.3 billion.

Net interest bearing assets remained unchanged from the previous year amounting to NOK 1.7 billion. The decrease in adjusted net interest bearing debt excluding equity accounted investments reflected a decline in net pension liabilities mainly due to discount rate and other changes in the assumptions and lower operating lease commitments. In addition, currency translation effects led to lower foreign currency denominated commitments measured in Norwegian kroner.

Hydro's adjusted net interest bearing debt to adjusted equity ratio was 0.19, well below its targeted maximum ratio of 0.55. Our adjusted funds from operations/adjusted net interest bearing debt ratio was 0.39, close to its targeted minimum of 0.40 over the business cycle.

Volatility in market prices of aluminium, raw materials and exchange rates, as well as working capital developments, represent factors which add uncertainty to the development of Hydro's cash position. Furthermore, due to uncertain economic conditions, future production and sales volumes are difficult to predict and adding additional uncertainty. See the section on risk review, including risk factors and market and commercial risk, in this report for additional information, including sensitivities to aluminium prices and currency-rate fluctuations.

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 2013.

Long-term borrowing and funding requirements

Norsk Hydro ASA has a USD 1.7 billion revolving multi-currency credit facility with a syndicate of international banks, maturing in July 2014. There was no borrowing under the facility as of December 31, 2012. See note 30 to the consolidated financial statements for additional information.

Planned capital expenditures and other potential financing requirements in 2013 will be covered by internally generated funds in addition to external funding.

Hydro has the ambition over time to access the national and international bond markets as its primary source for external funding of long-term capital requirements. In 2012 Hydro issued a NOK 1.5 billion seven year bond in the Norwegian capital market to extend the maturity profile of its funding base. The revolving facility discussed above will continue to serve primarily as a back-up for unforeseen funding requirements and will therefore be maintained as a reserve.

Contractual and other obligations, commitments and off-balance sheet arrangements

A summary of Hydro's total contractual obligations and commercial commitments to make future payments is presented below. For further information, see notes 15 Operating leases, 30 Long-term debt, 39 Contractual commitments and other commitments for future investments and 31 Provisions to Hydro's consolidated financial statements.

Hydro is contingently liable for certain guarantees amounting to about NOK 2 billion, mainly in connection with the sale of companies. This amount is excluded from the table below, and none of these amounts are recorded in the consolidated balance sheet as of the end of 2012. See note 37 Guarantees to Hydro's consolidated financial statements for a description of such guarantees.

		Payments due by period			
Amounts in NOK million	**Total**	Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term debt including interest	**5 535**	1 270	1 021	994	2 250
Operating lease obligations	**3 525**	290	616	584	2 034
Unconditional purchase obligations [1)]	**103 449**	12 936	20 030	16 250	54 233
Contractual commitments for PP&E	**1 295**	1 133	162	-	-
Short-term and long-term provisions [2)]	**3 941**	850	765	549	1 777
Total contractual and non-contractual obligations	**117 745**	16 479	22 594	18 377	60 294

1) Unconditional purchase obligations exclude long-term contracts with part owned entities.

2) Short-term and long-term provisions includes certain accruals and provisions which are non-contractual, but related to liabilities or obligations that are measurable and expected to occur in future periods.

Employee retirement plans

Hydro's employee retirement plans consist primarily of defined benefit pension plans. As of December 31, 2012, the defined benefit obligation associated with Hydro's defined benefit plans was NOK 15.5 billion. The fair value of pension plan assets was NOK 10.9 billion, resulting in a net unfunded obligation relating to the plans of NOK 4.6 billion. In addition, termination benefit obligations and other pension obligations amounted to NOK 0.2 billion, resulting in a total net unfunded pension obligation of NOK 4.8 billion. Hydro's net pension cost for 2012 amounted to NOK 0.6 billion. Cash outflows from operating activities in 2012 regarding pensions amounted to approximately NOK 0.7 billion. See note 32 Employee retirement plans in the consolidated financial statements for more information on Hydro's employee retirement plans.

Minority interest and shareholders' equity

Minority interest was NOK 5,835 million as of December 31, 2012, compared with NOK 6,988 million as of December 31, 2011. Shareholders' equity amounted to NOK 73,843 million at the end of 2012, compared with NOK 85,168 million at the end of 2011. The main items impacting shareholders' equity in 2012 and 2011 included net income, currency-translation adjustments and dividends declared and paid. In addition, shareholders' equity in 2011 was impacted by new shares issued to Vale Austria Holdings in connection with the acquisition of Vale Aluminium amounting to roughly NOK 20 billion.

See the consolidated statements of changes in equity and note 34 Shareholders' equity to Hydro's consolidated financial statements for a detailed reconciliation of shareholders' equity.

Investments

Investments in 2012 amounted to NOK 3,382 million, compared with NOK 47,510 million in 2011.

Investments [1)]	**Year**	Year	% change
NOK million	**2012**	2011	prior year
Bauxite & Alumina	**1 430**	36 865	(96)%
Primary Metal	**1 023**	9 505	(89)%
Metal Markets	**37**	103	(64)%
Rolled Products	**405**	435	(7)%
Energy	**430**	564	(24)%
Other and eliminations	**56**	39	43 %
Total	**3 382**	47 510	(93)%

1) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in non-consolidated investees. Excludes amounts relating to Extruded Products

In 2012, Hydro continued to focus on securing its liquidity position. Investments were mainly limited to maintenance activities to safeguard our production assets. A summary of the significant investments that were made in addition to maintenance activities for both 2012 and 2011 is included below.

In 2011 investments for Bauxite & Alumina related mainly to the assets acquired in the Vale Aluminium transaction amounting to NOK 35,321 million.

In 2011, the main investment for Primary Metal was related to the Albras smelter acquired from Vale amounting to NOK 8,055 million.

Investments for Rolled Products in 2012 included expenditures related to the completion of upgrading activities in our Grevenbroich and Hamburg plants. Investments in 2011 included amounts relating to upgrading these plants.

In 2012, investments in Energy included amounts relating to the new power stations at Holsbru and Vasstøl as well as a major upgrade project at Rjukan. Investments for Energy in 2011 included the same projects in addition to an upgrade of the Herva Power station.

Return on average Capital Employed (RoaCE)

Hydro uses (underlying) RoaCE to measure the performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views this measure as providing additional understanding of the rate of return on investments over time in each of its capital intensive businesses, and in the operating results of its business segments.

(Underlying) RoaCE is defined as (underlying) "Earnings after tax" divided by average "Capital Employed." (Underlying) "Earnings after tax" is defined as (underlying) "Earnings before financial items and tax" less "Adjusted income tax expense." Since RoaCE represents the return to the capital providers before dividend and interest payments, adjusted income tax expense excludes the tax effects of items reported as "Financial income (expense), net" and in addition, for underlying figures, the tax effect of items excluded. "Capital Employed" is defined as "Shareholders' Equity", including minority interest plus long-term and short-term interest-bearing debt less "Cash and cash equivalents" and "Short-term investments." Capital Employed can be derived by deducting "Cash and cash equivalents," "Short-term investments" and "Short-term and long-term interest free liabilities" (including deferred tax liabilities) from "Total assets." The two different approaches yield the same value.

	Underlying		Reported	
NOK million	**2012**	2011	**2012**	2011
EBIT	**1 158**	5 982	**432**	10 068
Adjusted Income tax expense [1]	**(594)**	(1 808)	**(900)**	(1 918)
EBIT after tax	**563**	4 174	**(468)**	8 149

	December 31		
NOK million	**2012**	2011	2010
Current assets [2]	**28 216**	28 040	24 567
Property, plant and equipment	**52 208**	64 192	24 849
Other assets [3]	**24 751**	30 176	27 122
Other current liabilities	**(14 960)**	(16 968)	(14 970)
Other long-term liabilities [4]	**(18 118)**	(21 980)	(15 108)
Capital Employed	**72 097**	83 460	46 460

	Underlying		Reported	
Return on average Capital Employed (RoaCE)	**2012**	2011	**2012**	2011
Hydro	**0.7 %**	6.4 %	**(0.6) %**	12.5 %
Business areas [5]				
Bauxite & Alumina	**(1.6) %**	2.8 %	**(1.5) %**	18.4 %
Primary Metal	**0.4 %**	5.7 %	**(3.2) %**	2.9 %
Metal Markets	**6.5 %**	13.4 %	**4.2 %**	13.8 %
Rolled Products	**5.4 %**	5.8 %	**6.7 %**	0.3 %
Energy	**23.2 %**	29.5 %	**23.0 %**	50.1 %

1) Adjusted Income tax expense is based on reported and underlying tax expense adjusted for tax on financial items.

2) Excluding cash and cash equivalents and short-term investments.

3) Including deferred tax assets.

4) Including provisions for pension and deferred tax liabilities.

5) RoaCE at business area level is calculated using 30% tax rate. For Energy, 50% tax rate is used, adjusted for sale of SKS in 2011.

Additional information

See note 7 to the consolidated financial statements for additional financial information relating to Hydro's operating segments. Following is a table of underlying EBITDA for each of the operating segments:

Underlying EBITDA NOK million	**Year 2012**	Year 2011	% change prior year
Bauxite & Alumina	**959**	2 480	(61) %
Primary Metal	**2 311**	4 671	(51) %
Metal Markets	**306**	542	(44) %
Rolled Products	**1 093**	1 126	(3) %
Energy	**1 588**	2 018	(21) %
Other and eliminations	**(570)**	(341)	(67) %
Total	**5 687**	10 497	(46) %

04: Risk review

QUICK OVERVIEW

Hydro faces many risks and uncertainties within its worldwide business operations and the global marketplace. We are exposed to changing economic and market conditions and price volatility can have a significant impact on Hydro's reported and operating results. Repositioning and restructuring activities are important in determining the viability of our future aluminium operations.

Our primary smelting operations are highly dependent on securing substantial amounts of energy at competitive prices. We are exposed to increasingly onerous legislation on CO_2 emissions that impact Hydro directly, relating to aluminium production, and indirectly, through higher power prices.

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. Hydro's main strategy for mitigating risk related to volatility in cash flow is to maintain a solid financial position and strong credit worthiness. Hydro is also taking proactive measures to reduce credit risk, improve its financial position and further adjust the cost of its smelter operations.

Indicative price and currency sensitivities +10% [1)]

NOK million	EBIT	Financial items	Income before tax	Net income
LME	2 700	-	-	2 000
USD	2 100	(700)	1 400	1 000
BRL	(850)	650	(200)	(100)
EUR	(150)	(1 400)	(1 550)	(1 100)

1) Assumptions: Annual sensitivities based on expected business volumes for 2013, LME USD 2,000, NOK/USD 5.80, NOK/BRL 2.80 and NOK/EUR 7.40. Aluminium price sensitivity is net of aluminium price indexed costs and excluding unrealized effects related to operational hedging. Currency sensitivities relating to financial items includes effects from intercompany positions.

Risk factors

Below is a description of certain risks that may affect our business, financial condition and the results of operations from time to time and, hence, our share price. All of the information in this report should be carefully considered, in particular, the risks described below.

Continued uncertainty and volatility in global economic and market conditions could have an adverse effect on our operating results and liquidity

Weak global economic conditions have contributed to low and volatile aluminium prices. Economic developments for Hydro's core European markets, in particular, have resulted in weaker downstream demand. These developments have had a significant negative influence on Hydro's underlying EBIT for the year 2012.

Future economic developments remain uncertain. Europe, in particular, continues to be impacted by the ongoing economic crisis. It remains to be seen whether initiatives implemented in the national states and the European Union (EU) will be sufficient to adequately address the underlying fiscal and economic problems in Europe. Although considered remote, there is a risk of failure within the currency union and the political union as a whole. A failure of the Euro or European Union would have far reaching consequences for both Europe and the world economy. In addition to the indirect effects of a severe general macroeconomic downturn, Hydro's counterparty risk towards key customers or groups of customers in weak and deteriorating economies could increase significantly. See also risk factor "Hydro faces the risk of counterparty default" below.

Based on operating revenues, around 45 percent of Hydro's business is generated within the EU and about 61 percent in Europe in total. Of this amount, Southern Europe represents about 10 percent of the total operating revenues. These amounts exclude Extruded Products wiich is reported as discontinued operations.

Since 2008 the global production of primary aluminium, excluding China, has exceeded market demand despite significant curtailments of production capacity, and inventories have remained at high levels. New curtailments, together with production disruptions contributed to a relatively balanced market in 2012. Although the market is expected to remain balanced in the coming year, expected growth in demand is uncertain.

We may be unable to reduce operating costs sufficiently to compensate for an extended period of weak demand and low aluminium prices

The majority of Hydro's upstream capacity is located in countries experiencing strong currencies and/or inflationary pressures such as Norway, Australia, Brazil, Qatar and Canada. These factors increase our operating costs and weaken our competitive position globally. In 2012, Hydro decided to close production at its Kurri Kurri plant in Australia due to the weak economic environment, low metal prices together with the effects of the strong Australian dollar.

In the last several years, the aluminium industry cost curve has increased on average about USD 300 per mt mainly due to higher costs for key raw materials driven by strong demand in emerging economies and in China in particular.

New initiatives have been implemented targeting significant cost savings and improvements for our operating segments while programs initiated earlier are ongoing. We may not succeed in making the cost reductions and improvements necessary on a timely basis, or they may be insufficient to achieve a sustainable level of profitability for our business operations in the event of an extended period of low aluminium prices, relatively high costs for key raw materials or weak market demand.

Price volatility can impact our operating costs and can also have a substantial effect on our reported operating results

Commodity price volatility in general has increased significantly in recent years and can have significant impact on our operating results. Commodity price volatility, including raw material commodities such as fuel oil, petroleum coke and coal, can significantly impact our operating costs directly and can also have a substantial effect on our reported operating results due to realized and unrealized gains and losses on derivative instruments. Underlying results for our trading and hedging operations are subject to substantial variations in periods of significant fluctuations of spot and forward prices for aluminium.

A deterioration of our financial position or a downgrade of our ratings by credit rating agencies could increase our borrowing cost and cost of capital and have an adverse effect on our business relationships

It is important for Hydro to maintain its investment grade credit rating for competitive access to capital and to support its business relationship with customers, suppliers and other counterparties. Our credit rating is also an important factor in making Hydro attractive as a joint venture partner for new growth initiatives. Any deterioration of our financial position or downgrade of our credit rating could increase our borrowing costs and have an adverse effect on our business relationships and attractiveness for major projects, contracts and other agreements.

Hydro's reported results and competitive position are exposed to changes in currency exchange rates

Hydro has a substantial portion of its primary metal capacity based in Norway and its accounting and reporting currency is the Norwegian krone. Primary aluminium prices and a major part of the raw materials for producing aluminium are denominated in US dollars. Following the completion of the Vale aluminium acquisition, roughly half of Hydro's capital employed is located in Brazil. Much of Hydro's downstream business is based in Europe and a large portion of the production is sold in Euro while export sales are typically denominated in US dollars. As a result of these exposures, the relative value of the US dollar, Brazilian Real and Euro are of high importance to Hydro's operating results. Changes in the value of these currencies can be significant and volatile.

Periodic revaluation of foreign-denominated balances can have a significant impact on earnings. Revaluation upon realization of such balances can have a significant effect on both earnings and cash. The value of investments committed in foreign currencies is sensitive to currency movements.

Hydro may not realize the benefits expected from the planned Sapa joint venture

The planned Sapa joint venture is expected to provide a platform for improved profitability and potential for future growth for Hydro's extrusion business. Potential synergies are expected to contribute to meeting the challenging market situation which is expected to continue in 2013. The necessary approvals from the relevant competition authorities in order to proceed with the transaction may not be granted. If the transaction is approved, the joint venture may fail to achieve a successful integration of the business operations and may not achieve the synergies expected.

Hydro may not realize the benefits expected from the acquisition of the Vale aluminium business

Hydro cannot be certain that it will realize the expected benefits from the acquisition of the Vale aluminium business or that such results can be achieved in the time frame expected. Weak economic and market conditions had a substantial negative influence on Hydro's bauxite and alumina business in 2012.

Costs associated with operating a mine may increase rapidly as a result of, among others, production interruptions or delays, increased or new license requirements and fees, new or increased royalties and/or indirect taxes, changes or variations in geologic conditions, environmental hazards and weather and other natural phenomena, mining and processing equipment failures and unexpected maintenance problems and interruptions due to transportation delays.

The acquisition of title to mineral concessions in Brazil is a detailed and time-consuming process. Failure to comply with the requirements of the Brazilian Department of Mines with respect to exploration permits and mining concessions may result in a loss of title. Third parties (including, but not limited to, indigenous persons) may dispute title to mineral concessions or the right to conduct mining or exploration activities. In addition, such properties may be subject to undetected or undisclosed defects.

The bauxite reserves acquired in the Vale transaction and the estimated quantities of bauxite that Hydro expects can be economically mined and processed are subject to material uncertainties.

Business development has occurred and is more likely to occur in emerging and transitioning markets

Following the acquisition of the Vale aluminium business and the completion of the Qatalum smelter, the geographic distribution of Hydro's business has changed significantly. New primary smelter, alumina and bauxite capacity is expected to be mainly located in countries characterized by emerging and transitioning markets.

Investing in emerging and transitioning markets is demanding in terms of organizational capacity, effort, knowledge and experience and Hydro may not be capable of succeeding in expanding its business in such markets.

Investments in emerging and transitioning markets may create exposure to economic structures that are generally less diverse and mature and may involve increased risks of severe inflation, fluctuation in currency rates, changing laws and judicial interpretations, disputes over ownership of land and other property and diverging financial, commercial or disclosure practices. Legal, fiscal and regulatory systems in emerging and transitioning markets may be less stable and have a lower degree of transparency and predictability, making investment evaluation and any eventual implementation more difficult. Lower transparency may also create exposure to actual or perceived corruption increasing the risk to the reputation of companies operating in such markets.

Conducting business in emerging and transitioning markets may be affected by political instability or unpredictability resulting from national or regional political transitions. Conducting business in emerging and transitioning markets may also be affected by government regulations with respect to restrictions on production, price controls, export controls, restrictions on repatriation of profits, payment of dividends, income taxes, expropriation of property, environmental legislation and mine safety. The Brazilian government has in the past intervened in the Brazilian economy and has occasionally made substantial changes in policy.

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

Hydro's business is subject to a number of risks and hazards which could result in damage to properties and production facilities, personal injury or death, environmental damages, monetary losses and possible legal liability. Breakdown of equipment, power failures or other events, including catastrophic events such as natural disasters and major military conflicts leading to production interruptions in our plants could have a material adverse effect on our financial results and cash flows. Although Hydro maintains insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with Hydro's operations.

Our downstream business is exposed to competition from China

China has in recent years imposed duties designed to reduce the export of aluminium metal, while also encouraging domestic production of more labor intensive semi-fabricated and finished aluminium products. This development exposes our downstream business to lower-priced exports from China.

Emerging or transitioning markets present a competitive threat to our business

Emerging or transitioning markets in countries with abundant natural resources, low-cost labor and energy, and lower environmental and other standards, have posed and may continue to pose a significant competitive threat to our business. In 2007, the European Union (EU) reduced its duty on unalloyed aluminium. Any further reductions or cancellation of these duties could result in increased imports of primary aluminium to the EU market from sources such as Russia and the Middle East.

Hydro is exposed to increasingly demanding legislation on reducing CO_2 emissions

Hydro has substantial smelter operations located in Europe. Legislation regulating CO_2 emissions has resulted in higher power prices for our European operations but to a lesser extent for our Norwegian smelters in the short to medium term, since most of the electricity consumption in Norway is covered by our own equity production or through long-term supply contracts. The EU has enacted emissions regulations that apply directly to CO_2 emissions from our smelter operations in Norway and in the EU from 2013 onward. Although there will be some compensation available to aluminium producers, these regulations are more demanding than those being contemplated in most other regions of the world and could negatively impact our competitive position. See also the section in this report on Regulation and taxation for more information pertaining to climate gases.

Our aluminium operations, and in particular our smelters, are dependent upon large volumes of energy

Our position could be materially affected by the inability to replace, on competitive terms, our long-term energy supply contracts when they expire, or our own equity production to the extent that concessions revert to the Norwegian state. See also the section in this report on Regulation and taxation for more information pertaining to the Norwegian regulatory system for hydroelectric production.

Future acquisitions, mergers, or strategic alliances may adversely affect our financial condition

Hydro may undertake additional acquisitions in the future and may not be able to realize benefits expected for such transactions. Acquisitions may contain significant unidentified liabilities which could have a material adverse effect on our financial position.

Increasing investments in jointly owned entities reduces Hydro's ability to manage its business portfolio

Investment as a minority partner in jointly owned entities and associates reduces Hydro's ability to manage and control this part of its portfolio. Investments in jointly owned entities, including those in which we hold a majority position also entail the risk of diverging interests between business partners, which could impede Hydro's ability to realize its objectives, repatriate funds from such entities and to achieve full compliance with its standards. At the end of 2012, around half of our smelter capacity was owned through interests in joint venture companies and we have an agreement for the establishment of a new joint venture for our extrusion operations.

We may not be successful in attracting and retaining sufficient skilled employees.

In order to safeguard our operations and achieve future growth, we must recruit and retain qualified professionals.

We are highly dependent on the continuous development and successful application of new technologies and require substantial capacity and competence in terms of complex management and critical business processes. We also emphasize diversity with regards to nationality, culture, gender and educational background in our recruiting practices and policies. Demand for personnel with the range of capabilities and experience required in our businesses is high and we may not succeed in attracting and retaining such employees. A subsequent decline in competitiveness could have a negative impact on our operating results and financial condition.

We may not succeed in developing technological solutions to support our growth strategies

Being at the forefront of technological development is important to remain competitive. Hydro is engaged in the development of new "next generation" cell and smelter technology together with key suppliers. We may fail to develop these technologies on a timely basis or they may not be commercially feasible, thereby resulting in a negative impact on our competitive position.

Hydro faces the risk of counterparty default

A significant downturn in the business or financial condition of a key customer or group of customers exposes us to the risk of default on contractual agreements and trade receivables, which would have a negative impact on our operational results. Weak and deteriorating economic conditions on a global, regional or industry sector level increases the risk of defaulting counterparties and may reduce or make prohibitively expensive credit insurance to cover such risk.

Failure or delays in the execution of major projects could have a negative impact on our competitive position

Hydro's strategy is to focus on business opportunities that enhance the cost position of its operations. We have several potential development projects which would require substantial funding. The execution of major investment projects is subject to the risk of delays, cost increases, availability of adequate funding and other complications. Failure or delays in the execution of major projects could result in additional costs and lost operating revenues in addition to weakening our competitive position, which would in turn have a negative impact on our future operating results.

Major accidents could result in substantial claims, fines or significant damage to Hydro's reputation

Some of our operations are located in close proximity to sizable communities. Major accidents due to human error, systems failures, deliberate sabotage, extreme weather or other natural disasters, could result in loss of life or extensive damage to the environment or communities. Such events could result in major claims, fines, penalties and significant damage to Hydro's reputation.

Hydro could be negatively affected by legal proceedings or investigations

Hydro could be negatively affected by criminal or civil proceedings related to, but not limited to product liability, environment, health and safety, alleged breaches of anti-competitive, anti-corruption practices or other integrity legislation or commercial disputes. See also the section of this report on Viability for more information on issues relating to integrity and transparency, and Legal proceedings in this Risk review section for more information on these matters. Violation of applicable laws and regulations could result in substantial fines or penalties, costs of corrective works and, in rare instances, the suspension or shutdown of our operations and substantial damage to the company's reputation.

Hydro may be subject to unforeseen liabilities for environmental damage

Environmental laws may impose cleanup liability on owners and occupiers of contaminated property, including past or divested properties, regardless of whether the owners and occupiers caused the contamination or whether the activity that caused the contamination was lawful at the time it was conducted. Many of our present and former operations are and were located on properties with a long history of industrial use. See also the section in this report on Regulation and taxation for more information pertaining to Environmental matters.

Hydro is subject to a broad range of laws and regulations

Hydro is subject to a broad range of laws and regulations in the countries and legal jurisdictions in which we operate. These laws and regulations impose stringent standards and requirements and potential liabilities regarding accidents and injuries, the construction and operation of our plants and facilities, air and water pollutant emissions, the storage, treatment and discharge of waste waters, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination, among other things. We believe we are in material compliance with currently applicable laws and regulations. However, these laws and regulations may change or new laws and regulations may be enacted requiring substantial costs for compliance, reducing profitability or having a negative impact on our competitive position.

Hydro may be subject to liabilities relating to businesses transferred to successor companies

Hydro has certain joint liabilities under Norwegian statutory regulations following from demergers. Under the Norwegian public limited companies act section 14-11, Hydro and Statoil are jointly liable for liabilities accrued before the demerger date of October 1, 2007. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. Similarly, Hydro and Yara International ASA are jointly liable for liabilities accrued before the demerger date of March 24, 2004, on the same conditions.

Rights and legal remedies may be limited for certain classes of shareholders

The exercise of shareholder rights such as voting and preferential subscription rights may not be available to beneficial shareholders whose shares are registered in a nominee account, and not in the shareholders' own names with the Norwegian Central Securities Depository, *Verdipapirsentralen* (VPS). Hydro cannot guarantee that beneficial shareholders will receive the notice for a general meeting in time to instruct their nominees to affect a re-registration of their shares. Hydro is organized under the laws of the Kingdom of Norway. It may be difficult for investors to effect service of process outside Norway upon Hydro or its directors and executive officers, or to enforce against Hydro or its directors and executive officers judgments obtained in other jurisdictions. Norwegian courts are unlikely to apply other than Norwegian law when deciding on civil liability claims under securities laws.

Market and commercial risk

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. Business areas have the main responsibility for relevant risk management within their area. Corporate staff units establish policies and procedures for managing risk and coordinate an overall enterprise risk assessment.

Financial position

Hydro's main strategy for mitigating risk related to volatility in cash flow is to maintain a strong balance sheet. Specific key financial ratios and other metrics are targeted over the business cycle reflecting a solid financial position and strong credit worthiness. Examples include an adjusted net interest-bearing debt/equity ratio below 0.55 and a ratio of funds from operations to adjusted net interest-bearing debt above a level of 0.40. In addition, Hydro has established guidelines for liquidity reserves and for the profile of installment payments on debt in order to secure its financial position.

Liquidity risk

Hydro's liquidity position at the end of 2012 is considered to be solid. An undrawn committed credit facility from banks amounting to USD 1.7 billion remained undrawn from the previous year. During 2012, Hydro issued a NOK 1.5 billion bond maturing in 2019. Hydro continues to focus on cash flow and credit risk throughout the organization. We take a proactive approach toward customers to reduce credit risk and also monitor the financial performance of key suppliers in order to reduce the risk of default on operations and key projects.

Prices and currency

Hydro's operating results are primarily affected by price developments of its main products, aluminium and power, and of raw materials, in addition to fluctuations in the value of the Norwegian krone to the U.S. dollar and the Euro, and of the Brazilian Real to the U.S. dollar which are the most significant currencies for Hydro. Our main risk management strategy for upstream operations is to accept exposure to aluminium and energy price movements, while at the same time focusing on reducing the average cost position of our production assets. In certain circumstances, derivatives may be used to hedge certain revenue and cost exposures.

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

To mitigate the U.S. dollar exposure, Hydro's policy is to raise funding in U.S. dollars. To reduce the effects of fluctuations in the U.S. dollar and other exchange rates, Hydro has also used foreign currency swaps and forward currency contracts. Currently, there are no material amounts outstanding under such contracts.

An indication of the sensitivities regarding aluminium prices and foreign currency fluctuations for 2013 is provided in the table below. The table illustrates the sensitivity of earnings, before and after tax, to changes in these factors and is provided to supplement the sensitivity analysis required by IFRS, included in note 7 to the Consolidated Financial Statements.

Indicative price and currency sensitivities +10%[1)] **NOK Million**	EBIT	Financial items	Income before tax	Net income
LME	2 700	-	-	2 000
USD	2 100	(700)	1 400	1 000
BRL	(850)	650	(200)	(100)
EUR	(150)	(1 400)	(1 550)	(1 100)

1) Assumptions: Annual sensitivities based on expected business volumes for 2013, LME USD 2,000, NOK/USD 5.80, NOK/BRL 2.80 and NOK/EUR 7.40. Aluminium price sensitivity is net of aluminium price indexed costs and excluding unrealized effects related to operational hedging. Currency sensitivities relating to financial items include effects from intercompany positions.

In addition to the above sensitivities, the revaluation of derivative instruments and contracts classified as derivatives may influence reported earnings. For accounting purposes, derivative financial and commodity instruments are recognized at fair value, with changes in fair value impacting earnings unless specific hedge criteria are met. This can result in volatility in earnings, since the associated gain or loss on the related physical transactions may be reported in earnings in different periods. Please see note 7 and 41 to the Consolidated Financial Statements for a detailed description of Hydro's commercial and financial risk exposures and hedging activities related to such exposures.

In accordance with IFRS requirements, Hydro has chosen to provide information about market risk and potential exposure to hypothetical loss from its use of derivative financial instruments and other financial instruments, and derivative commodity instruments through sensitivity analysis disclosures. Please see note 7 to the Consolidated Financial Statements for more information, and for additional information on these disclosures.

Legal proceedings

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

05: *Shareholder information*

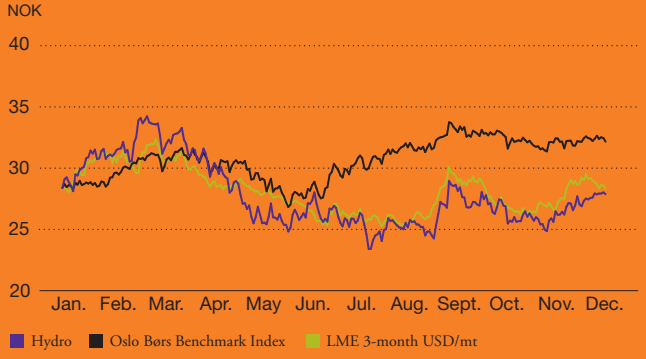
QUICK OVERVIEW

Hydro's share price closed at NOK 27.88 at the end of 2012. The return for 2012 was positive, amounting to NOK 0.14, or 0.5 percent. Hydro's Board of Directors proposes to pay a dividend of NOK 0.75 per share for 2012, for approval by the Annual General Meeting on May 8, 2013, reflecting the company's strong commitment to provide a cash return to its shareholders. The dividend reflects the operational performance for 2012 and a strong financial position, also taking into consideration the uncertain market outlook.

There were 2,037,568,162 outstanding shares at the end of 2012. Hydro had 51,766 registered shareholders as per the Norwegian Central Securities Depository. The Ministry of Trade and Industry of Norway was the largest of these with a shareholding of 34.26 percent of the total number of ordinary shares authorized and issued.

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 U.S., the premium over-the-counter market tier.

Share price development in 2012



Introduction

Hydro's share price closed at NOK 27.88 at the end of 2012. The return for 2012 was positive with NOK 0.14, or 0.5 percent. Hydro's Board of Directors proposes to pay a dividend of NOK 0.75 per share for 2012, for approval by the Annual General Meeting on May 8, 2013, reflecting the company's strong commitment to provide a cash return to its shareholders and strong financial position.

There were 2,037,568,162 outstanding shares at the end of 2012. A total of 1.3 billion Hydro shares were traded on the Oslo Stock Exchange during 2012, representing 3.7 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.

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 propose 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 are relevant, our board of directors proposes buyback authorizations to be considered and approved by the Annual General Meeting. Authorizations are granted for a specific time period and for a specific share price interval during which share buybacks can be made.

Funding and credit quality

Maintaining a strong financial position and an investment grade credit rating are viewed as important risk mitigating factors, supporting Hydro's possibilities for strategic development of its businesses. Access to external financial resources is required in order to maximize value creation over time, balanced with acceptable risk exposure. To secure access to debt capital on attractive terms, we aim at maintaining an investment grade credit rating from the leading rating agencies.

Contributing toward this ambition to retain our credit rating, we intend to keep our funds from operations at a level no less than 40 percent of net adjusted interest-bearing debt, in addition to net adjusted interest-bearing debt at a ratio not higher than 0.55 to equity capital over time. In calculating this ratio, we include off-balance sheet pension obligations, operating lease commitments, share of net interest-bearing debt in joint ventures and certain other debt-like items. For a discussion of these adjustments see Note 35 - Capital Management in the Financial Statements section of this report.

Major shareholders and voting rights

As of December 31, 2012, Hydro had 51,766 registered shareholders as per the Norwegian Central Securities Depository (VPS). The Ministry of Trade and Industry of Norway was the largest of these with a shareholding of 34.26 percent of the total number of ordinary shares authorized and issued, and 34.79 percent of the total shares outstanding. As of the same date, The Government Pension Fund - Norway (Folketrygdfondet) owned 3.89 percent of the total number of ordinary shares issued and 3.95 percent of the total shares outstanding. There are no different voting rights associated with the ordinary shares held by the state.

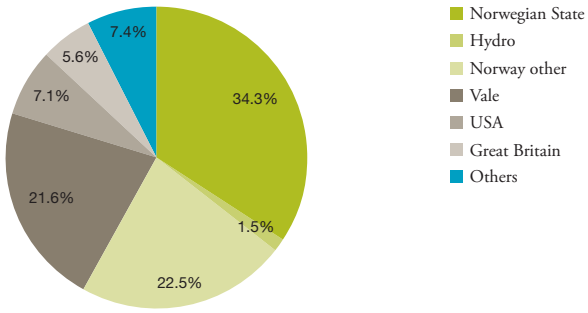
The Norwegian Ministry of Trade and Industry represents the Norwegian government in exercising the state's voting rights. The state has never taken an active role in the day-to-day management of Hydro and has for several decades not disposed of any of the ordinary shares owned by it, except when participating in the share buyback programs.

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 therefore owns 21.64 percent of the total number of ordinary shares issued and 21.98 percent of the total shares outstanding. According to the agreement, Vale cannot increase its ownership beyond the 22 percent, is required to retain its shares for at least two years after the transaction closes and following the two-year period not sell shares constituting more than 10 percent of Hydro's issued shares to any single buyer or group.

The state, represented by the Ministry of Trade and Industry has stated its intention to potentially increase its shareholding up to 39.9 percent through acquiring shares in the market.

JPMorgan Chase & Co, as depositary of the ADSs, through its nominee company, Morgan Guaranty Trust Company, held interests in 9,351,756 ordinary shares, or 0.45 percent of the issued and outstanding ordinary shares as of December 31, 2012. The interests are on behalf of approximately 410 registered holders of ADSs.

Geographical ownership distribution of shares



Source: Norwegian Central Securities Depository (VPS)

All shares basically carry one vote. It is, however, a requirement of Norwegian legislation that a shareholder can only vote for shares registered in their name. Shares registered with a nominee account must be re-registered in the Norwegian Central Securities Depositary before the Annual General Meeting in order to obtain voting rights. This requirement also applies to our US-traded ADSs.

Hydro's 20 largest shareholders, December 31, 2012

Shareholder	Number of shares	Ownership interest
Ministry of Trade and Industry	708,865,253	34.3%
Vale Austria Holdings Gmbh	447,834,465	21.6%
Folketrygdfondet	80,454,494	3.9%
Silchester International Investors LLP	49,480,469	2.4%
Dodge & Cox	34,041,972	1.6%
Rasmussengruppen AS	32,377,000	1.6%
SAFE Investment Company Limited	29,710,438	1.4%
Skagen AS	20,784,167	1.0%
DNB Asset Management AS	20,357,245	1.0%
Pareto Forvaltning AS	17,877,202	0.9%
EARNEST Partners, LLC	16,885,138	0.8%
KLP Forsikring	16,069,769	0.8%
BlackRock Institutional Trust Company, N.A.	15,781,230	0.8%
Manning & Napier Advisors, LLC	15,761,216	0.8%
Baillie Gifford & Co.	14,410,959	0.7%
Storebrand Kapitalforvaltning AS	13,217,233	0.6%
ODIN Forvaltning AS	11,604,220	0.6%
Statoil Kapitalforvaltning ASA	10,710,677	0.5%
State Street Global Advisors (US)	10,658,001	0.5%
Vanguard Group, Inc.	9,512,983	0.5%

Source: The data is provided by Thompson Reuters through the Share Register Analyses service. The data is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Hydro share register. Whilst every reasonable effort is made to verify all data, Thompson Reuters can not guarantee the accuracy of the analysis. For a list of the largest shareholders as of December 31, 2012, from the Norwegian Central Securities Depositary (VPS), see Note 13 in Notes to the financial statements Norsk Hydro ASA.

Key figures for the Hydro share

Key figures for the Hydro share

	2012	2011	2010	2009	2008
Share price high, Oslo (NOK)	34.24	48.24	50.30	49.25	85.60
Share price low, Oslo (NOK)	23.40	23.96	29.06	20.40	21.20
Share price average, Oslo (NOK)	27.84	36.92	38.75	33.65	57.32
Share price year-end, Oslo (NOK)	27.88	27.74	42.61	48.71	27.80
Earnings per share (EPS) (NOK)	(0.61)	3.41	1.33	0.25	(3.25)
EPS from continuing operations (NOK) [1]	(0.35)	3.41	1.33	0.25	(3.04)
Dividend per share (NOK) [2]	0.75	0.75	0.75	0.50	0.00
Pay-out ratio [3]	-	22%	56%	200%	-
Dividend growth	0%	0%	50%	-	-100%
Pay-out ratio five year average [4]	172%	77%	57%	39%	38%
Adjusted debt/equity ratio [5]	0.19	0.24	0.11	0.32	0.30
Credit rating, Standard & Poor's	BBB	BBB	BBB	BBB-	BBB
Credit rating, Moody's	Baa2	Baa2	Baa2	Baa2	Baa1
Non-Norwegian ownership, year-end	42%	44%	23%	27%	33%
Outstanding shares, average	2,037,199,618	1,965,039,601	1,419,052,116	1,205,376,724	1,209,143,809
Outstanding shares, year-end	2,037,568,162	2,036,459,019	1,587,776,741	1,204,785,945	1,206,325,863

1) Extruded Products is only included as discontinued operations for 2012.

2) 2012 dividend per share proposed by Board of Directors, dependant on approval from the Annual General Meeting May 8, 2013.

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

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

5) See note 35 to the Consolidated Financial Statements.

Information from Hydro

Hydro gives a high priority to communicating with the stock market, and aims to maintain an open dialogue with market participants. Our objective is to provide sufficient information on a timely basis to all market participants to ensure a fair valuation of our shares. Information that is considered price sensitive is communicated by news releases and stock exchange announcements. We host regular meetings for investors in Europe and the US. The major brokers in Oslo and London publish equity research reports on Hydro. All information about Hydro is published on our website: www.hydro.com

Our annual and quarterly reports are available on www.hydro.com, and our latest annual reports can also be ordered in printed versions from the website.

Two weeks before the announcement of quarterly results, Hydro practices a "closed period" meaning that contact with external analysts, investors and journalists is minimized. This is done to minimize the risk of information leaks and potentially unequal information in the marketplace.

Annual General Meeting

The Annual General Meeting will be held at the company's headquarters at Drammensveien 260, Oslo, Norway, on Wednesday, May 8, 2013, at 13:00 CET. Shareholders who wish to attend are asked to inform the registrar by 16:00 CET on Monday, May 6:

DNB Bank ASA
Verdipapirservice
Postboks 1600 Sentrum
0021 Oslo, Norway
Fax: + 47 22 48 11 71

You may also register electronically on our website www.hydro.com/register or via VPS Investor Services. Any shareholder may appoint a proxy with written authority to attend the meeting and vote on his or her behalf. Voting rights are discussed under "Major shareholders and voting rights."

Change of address

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

Financial calendar 2013

April 24 First quarter results
May 8 Annual General Meeting
May 10 Shares traded ex-dividend
May 14 Record date for dividend
July 18 Second quarter results
October 23 Third quarter results
December 5 Capital Markets Day

06: Corporate governance

– including compliance with the Norwegian code of practice for corporate governance

QUICK OVERVIEW

Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our corporate governance has been designed to provide a foundation for value creation and to ensure good control mechanisms. We maintain common requirements in the form of corporate directives that are mandatory for all parts of our organization.

The corporate directives help ensure that all our employees carry out their activities in an ethical manner and in accordance with current legislation and Hydro standards. The board of directors has approved our Code of Conduct, which applies to all employees throughout the world, as well as to board members of Hydro and its subsidiaries. The code addresses compliance with laws and other matters such as handling of conflicts of interest and a commitment to equal opportunities for all employees. Our integrity program contributes to compliance with anti-corruption legislation and basic human rights.

Hydro follows the Norwegian code of practice for corporate governance of October 2012.

Hydro present

Based in Norway, Hydro employs 23,000 people in more than 40 countries.

Introduction

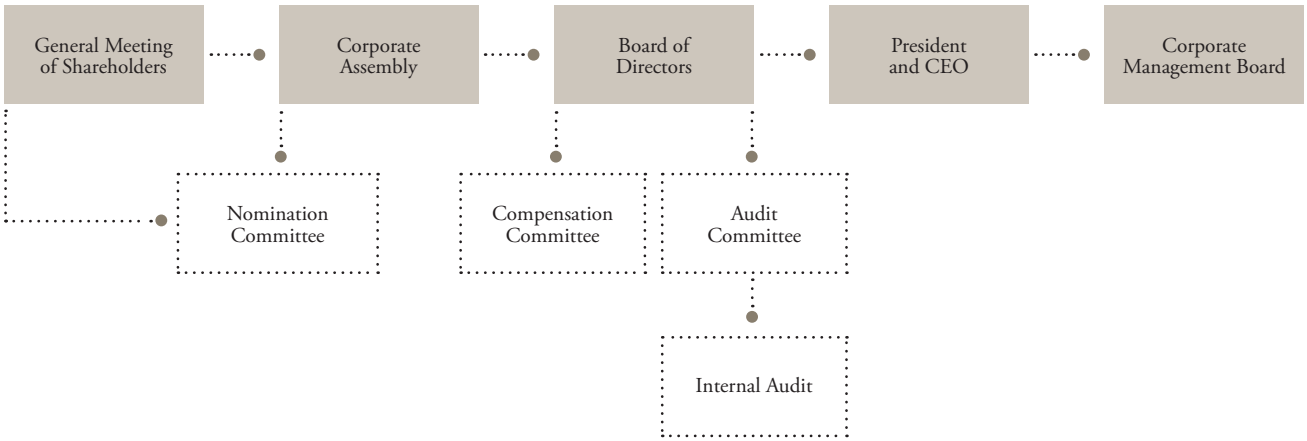
Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our main share listing is on Oslo Børs, which subjects us to Norwegian securities legislation and stock exchange regulations. Hydro has a secondary listing on London Stock Exchange.

We have developed our governance structure through cooperation between our corporate management board and our superior governance bodies to secure compliance with relevant laws and regulations and to reflect business needs. Further development is a continuous process.

We follow the Norwegian Code of Practice for Corporate Governance of October 2012. A detailed description of our compliance - including deviations - is presented on page 148. Information regarding our shareholder policy can be found on page 131.

Hydro has been listed on the Dow Jones Sustainability Indexes (DJSI) every year since the start of the indexes in 1999. We are also listed on the corresponding UK index, FTSE4Good.

Hydro's strategic direction is described on page 11. More comprehensive information about our governance practices, policies and requirements can be found at www.hydro.com/governance



Global directives and Code of Conduct

The Hydro Way represents our framework for leadership, organization and culture and is the foundation of our governance system. See page 60 for further information. Our system is based on the delegation of responsibility to our business areas and to corporate functions whose duties include finance, tax and accounting. In order to maintain uniformly high standards, we set common requirements in the form of constituting documents and global directives. Constituting documents are approved by Hydro's board of directors, the corporate assembly or the general meeting of shareholders, while global directives are approved by the President and CEO. For legal entities where Hydro holds less than 100 percent of the voting rights, Hydro's representatives in the boards of directors shall act in compliance with Hydro's Code of Conduct and endeavor to implement the principles as laid down therein. These documents address a number of areas, including health, security, safety and environment (HSE), ethics and social responsibility, strategy and business planning, finance, risk management, and organizational and employee development. This information is made available to all employees.

Hydro's Code of Conduct is a constituting document and applies to all Hydro employees throughout the world, as well as to board members of Hydro and its subsidiaries. The code was last updated in October 2012. See page 70 for more information about Hydro's Code of Conduct, whistle blowing procedure and integrity program, and www.hydro.com/principles for more information regarding our corporate directives.

In Hydro, compliance is defined as adherence to applicable laws and regulations as well as Hydro's steering documents. Guidelines have been established to assist line management to adhere to Hydro's compliance requirements. Special emphasis is made on reducing the risk of non-compliance within finance, anti-corruption, competition, and health, security, safety and environment.

Business planning and risk management

Hydro's overall goal is to create shareholder value through satisfied customers and motivated and competent employees. We have defined two main processes to ensure that short and long-term targets are achieved.

The portfolio, strategy and business planning process involves strategic and operative planning and results monitoring. The planning, which reflects our ambitions and values, is the basis for the strategies and measures that form the business plans at all levels of our organization. We have defined key performance indicators for each unit, including financial, human resource, ethical and HSE objectives, in addition to unit-specific operating targets.

The people process is designed to assess and develop our human resources, and is an integral part of our annual business planning. Its aim is to promote the potential of individual employees and of our organization as a whole.

Risk management is also an integrated part of our planning and reporting process. Risk management deals with all aspects of value creation, including strategy, finance, commercial matters, organization, HSE, reputation, corporate responsibility, regulatory and legal matters. Hydro's board of directors regularly reviews and evaluates the overall risk management systems and environment within Hydro. We carry out risk assessments for defined exposure areas. Exposure to certain risks, particularly those threatening life and health, has been consistently reduced to very low levels. See also page 123 for a more detailed discussion of Hydro's financial risk management.

Controls and procedures

Hydro's Internal Control over Financial Reporting (ICFR) framework is primarily designed to provide reasonable assurance to our management and the board of directors regarding the preparation and fair presentation of our Financial Statements.

We established our comprehensive ICFR framework in 2006 and continue to maintain it based on the principles established by "The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control - integrated framework." The five interrelated COSO principles are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Our overall control environment relevant for financial reporting is covered by Hydro-Wide Controls (HWC). HWC reflects the tone set by the common attitudes, ethics, and values, and competence of top management and management, and all the rest of our employees.

Our ICFR model is implemented through a top-down and risk-based approach. Therefore, we emphasize four higher-risk areas: Hydro's financial reporting risk, fraud risk, general computer risk, and financial closing risk.

In addition, a standard and minimum level of controls is required for all reporting units, documented in an internal control handbook.

Hydro's disclosure committee assists the CEO and the CFO in ensuring fairness, accuracy, completeness and timeliness of Hydro's public reports and disclosures. The disclosure committee is an integral component of Hydro's disclosure controls and procedures and assesses Hydro's compliance initiatives pertaining to ICFR. The disclosure committee reports quarterly a summary of its activities to the audit committee.

Through reporting from the disclosure committee and internal audit, the audit committee takes an active role in ensuring the effective and harmonized functioning of the ICFR framework. See page 147 and www.hydro.com/governance for additional details.

Pre-approval of audit services

The audit committee has a pre-approval policy governing the engagement of primary and other external auditors to provide audit and non-audit services to Hydro or any entity within the group. Under this pre-approval policy, the audit committee has defined and pre-approved subcategories of audit and non-audit services. The audit committee's pre-approval policy includes annual monetary frames for each of the following categories of services:

- Audit-related
- Tax
- Non-audit related

Within the scope of the pre-approval policy, all services have been pre-approved and all amounts for audit-related, tax and other non-audit related services are within the monetary frames established by the audit committee.

Transparency and communication

Hydro's corporate culture embodies the principles of transparency and respect for others. Our ability to operate efficiently in the Norwegian market and internationally requires consistent and professional communication. We adhere, therefore, to the principles of transparency, honesty and sensitivity when interacting with our stakeholders.

Management compensation

Information concerning remuneration and remuneration policies, share ownership, loans outstanding and loan policy relating to Hydro's board of directors and corporate management board is disclosed in note 10, 11 and 44 of the consolidated financial statements.

Board of directors

Name	Place of residence	Year of birth	Position	Board committee	Meetings attended [1]	Director since	Term expires
Terje Vareberg	Stavanger, Norway	1948	Chairperson	Chairperson Compensation Committee	15	2007	2014
Bente Rathe 2)	Trondheim, Norway	1954	Deputy Chairperson	Audit Committe	9	2007	2012
Inge K. Hansen 3)	Oslo, Norway	1946	Deputy Chairperson	Chairperson Audit Committe	15	2008	2014
Ove Ellefsen 4)	Håvik, Norway	1956	Director	Audit Committe	15	2011	2013
Billy Fredagsvik 5)	Høyanger, Norway	1956	Director		15	2007	2013
Finn Jebsen	Oslo, Norway	1950	Director	Compensation Committee	11	2007	2014
Victoire de Margerie 6)	Paris, France	1963	Director		4	2012	2014
Tito Botelho Martins Jr 7)	Toronto, Canada	1962			3	2011	2012
Sten Roar Martinsen	Kopervik, Norway	1962	Director	Compensation Committee	15	2005	2013
Dag Mejdell 4) 8)	Oslo, Norway	1957	Director	Audit Committe	9	2012	2014
Eva Persson	Västra Frölunda, Sweden	1953	Director	Audit Committe	15	2010	2014
Pedro José Rodrigues 9)	Rio de Janeiro, Brazil	1953	Director		5	2012	2014
Liv Monica Stubholt	Lørenskog, Norway	1961	Director	Compensation Committee	13	2010	2014

1) Total number of board meetings were 15. Ten of these were during Rathe's term of service, five during Martin's and de Margerie's, eleven during Mejdell's, and six during Rodrigues'. Jebsen abstained himself from discussions related to the Sapa agreement due to his former relationship with Orkla.
2) Stepped down from the board on October 1, 2012
3) Deputy Chairperson as of October 1, 2012
4) Member of the Audit Committee as of October 1, 2012
5) Member of the Audit Committee until October 1, 2012
6) Member of the board as of October 01, 2012
7) Stepped down from the board on August 13, 2012
8) Member of the board as of May 25, 2012
9) Member of the board as of September 21, 2012

Terje Vareberg, chairperson

- Position: Independent businessman
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH)
- Current directorships: Chairperson of Bergli Rådgivning AS, TS Eiendom AS, T Stangeland Maskin AS, NorDan AS, Malthus AS, Ipark AS, Aarsland Møbelfabrikk AS, Fabrikkveien II AS, Aarsland Holding II AS, Solstad Trading AS. Board member of Solstad Offshore ASA, Energy Ventures IV AS, Lærdal Finans AS and Farsund Vekst AS. Member of the supervisory board of SpareBank 1 SR Bank ASA.
- No. of Hydro shares: 18,391

Inge K. Hansen, deputy chairperson

- Position: Independent adviser
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH)
- Current directorships: Chairperson of Bertel O. Steen AS, Norsun AS, Gjensidige Forsikring BA, Hotell og Restauranthuset Continental, Core Energy AS and AIM Norway SF. Board member of Jiffy International AS, Master Marine AS, Johan G. Olsen AS, Sissener AS and the Fram Museum.
- No. of Hydro shares: 12,000

Ove Ellefsen, employee representative

- Position: Project Supervisor / full-time union official representing the Central Cooperative Council (Sentralt Samarbeidsråd)
- Education: Certificate of apprenticeship in electrochemistry. Work supervisor training
- Current directorships: None
- No. of Hydro shares: 2,844

Billy Fredagsvik, employee representative

- Position: Process operator / full-time union official. Represents the Norwegian Confederation of Trade Unions
- Education: Trade school (mechanics)
- Current directorships: None
- No. of Hydro shares: 2,459

Finn Jebsen

- Position: Independent businessman
- Education: Master of Science in business from the Norwegian School of Economics and Business Administration (NHH). MBA from the University of California, Los Angeles
- Current directorships: Chairperson of Kongsberg Gruppen ASA and Kavli Holding AS; deputy chair of KLP Forsikring; board member of A. Wilhelmsen Management AS, Berner Group AS and his wholly-owned company Fateburet AS
- No. of Hydro shares: 53,406

Sten Roar Martinsen, employee representative

- Position: Process operator / full-time union official representing the Norwegian Confederation of Trade Unions (LO)
- Education: Certificate of apprenticeship in electrochemistry. Work supervisor training
- Current directorships: None
- No. of Hydro shares: 3,515

Victoire de Margerie

- Position: Independent business woman
- Education: Master in Management from Ecole des Hautes Etudes Commercials, France. Political Sciences degree from Institut d'Etudes Politiques, France. PhD Management Science, Université de Paris, France
- Current directorships: Chairperson of Rondol Industrie SA and Rondol Technology Ltd.
- No. of Hydro shares: 0

Dag Mejdell

- Position: President and CEO of Posten Norge AS
- Education: Master degree in Business Administration from the Norwegian School of Economics & Business Administration (NHH)
- Current directorships: Chairperson of International Post Corporation and for the employers' association Spekter; deputy chairperson of Evry ASA and SAS AB
- No. of Hydro shares: 13,400

Eva Persson

- Position: Executive Vice President and General counsel for the Volvo Group
- Education: Master of Law from the University of Lund, Sweden
- Current directorships: Board member of Handelsbanken region Western Sweden
- No. of Hydro shares: 0

Pedro Rodrigues.

- Position: Global Director of Mergers and Acquisitions of Vale S.A.
- Education: Chemical Engineer
- Current directorships: None
- No. of Hydro shares: 0. Vale holds 447,834,465 shares

Liv Monica Stubholt

- Position: Senior Vice President of Strategy & Communications in Kværner ASA
- Education: Master's degree in law (cand. jur.), University of Oslo
- Current directorships: Board member of the Norwegian-German Chamber of Commerce
- No. of Hydro shares: 0

Number of Hydro shares is as per 31 December, 2012.

For more extensive biographical information, please see www.hydro.com/governance

Corporate management board

Name	Place of Residence	Year of birth	Employed in Hydro since	Current position since	Position
Svein Richard Brandtzæg	Oslo, Norway	1957	1985	2009	President and Chief Executive Officer
Wenche Agerup	Oslo, Norway	1964	1997	2010	EVP Corporate Staffs and General Counsel
Oliver Bell	Grevenbroich, Germany	1958	1985	2009	EVP Rolled Products
Eivind Kallevik 1)	Oslo, Norway	1967	1998	2013	EVP and Chief Financial Officer
Hans-Joachim Kock	Lausanne, Switzerland	1954	1981	2010	EVP Extruded Products
Arvid Moss	Oslo, Norway	1958	1991	2010	EVP Energy and Corporate Business Development
Johnny Undeli	Gjøvik, Norway	1953	1977	2010	EVP Bauxite and Alumina
Hilde Merete Aasheim 2)	Oslo, Norway	1958	2008	2008	EVP Primary Metal

EVP: Executive vice president

1) Kallevik joined the corporate management board February 15, 2013, following Jørgen C. Arentz Rostrup who resigned from Hydro at the same date.
2) Aasheim also was employed in Hydro 2005-2007

Svein Richard Brandtzæg, President and CEO

- Key experience: Executive vice president and head of Aluminium Products. Head of Rolled Products. Head of Metal Products. Head of Magnesium
- Education: PhD, Norwegian Institute of Technology. Degree from the Norwegian School of Management
- External directorships: Council member of ICMM, member of the European Round Table for Industrialists, member of the steering committee of Bilderberg Meetings, board member of International Aluminium Institute
- No. of Hydro shares: 90,967

Wenche Agerup

- Key experience: Head of Hydro's bauxite exploration activities in Australia. Plant manager in Årdal, Norway. Head of Bauxite and Alumina. Head of Mergers & Acquisitions
- Education: Master's degree in law (cand. jur.), University of Oslo. MBA from Babson College in Boston, U.S.
- External directorships: Board member of the Arbitration Institute of Oslo Chamber of Commerce, Oslo Børs ASA and Oslo Børs VPS Holding ASA
- No. of Hydro shares: 30,180

Oliver Bell

- Key experience: Head of Rolled Products. Head of Automotive, Construction, Packaging and General Engineering in Rolled Products. Various management positions in VAW
- Education: Degree in business administration from the University of Cologne
- External directorships: member of the supervisory board of Norf GmbH (50%JV of Hydro), President Eurometaux (European non-ferrous metals industry association) and Vice President European Aluminium Association
- No. of Hydro shares: 30,458

Eivind Kallevik

- Key experience: Head of Finance Bauxite and Alumina. Responsible for integration planning of all functional areas in the Vale deal. Head of Corporate Financial Reporting, Performance and Tax. Head of Finance Aluminium Products. Head of Business Controlling Hydro Aluminium. Responsible for Trade Finance & Cash Management. Prior to Hydro, 6 years of Oil and Gas Financing in Christiana Bank og Kreditkasse
- Education: Master of Business Administration from University of San Francisco
- External directorship: None
- No. of Hydro shares: 3,087

Hans-Joachim Kock

- Key experience: Head of finance in Hydro's Aluminium Products. Head of Rolled Products. Plant manager Slim, Italy
- Education: Degree in business administration and engineering from the University of Karlsruhe, Germany
- External directorships: None
- No. of Hydro shares: 26,955

Arvid Moss

- Key experience: Executive vice president and head of Corporate Strategy and Business Development. Project leader for the oil and gas merger agreement with Statoil. Head of Metal Products. Head of Automotive Structures
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH)
- External directorships: None
- No. of Hydro shares: 86,476

Johnny Undeli

- Key experience: Executive vice president and head of Extrusion. Various leadership positions within Hydro's extrusion business in Europe. Various positions in Hydro's former oil and gas business. Six years in Total, UK
- Education: Master of Science in petroleum technology, Norwegian Institute of Technology
- External directorships: None
- No. of Hydro shares: 24,584

Hilde Merete Aasheim

- Key experience: Head of Staff Functions and Corporate Services in StatoilHydro. Head of the integration between Statoil and Hydro's oil and gas activities. Head of Leadership and Culture in Hydro. 20 years of service in Elkem, three last years as head of the Silicon Division
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH). Certified public accountant from NHH
- External directorships: Board member of Yara ASA and Norsk Industri
- No. of Hydro shares: 22,633

On August 15, 2012 Tom Røtjer and Kjetil Ebbesberg stepped down from the corporate management board reducing its members from 10 to eight. Jørgen C. Arentz Rostrup resigned from Hydro on February 15, 2013. From the same date, Eivind Kallevik was appointed executive vice president and Chief Financial Officer.

Number of Hydro shares is as per 31 December, 2012.

For more extensive biographical information, please see www.hydro.com/governance

Governance bodies

Description	Developments and events in 2012	References
General meeting of shareholders Company shareholders exercise ultimate authority through the general meeting. Shareholders registered in VPS, the Norwegian Central Securities Depository, can vote in person or by proxy. Invitations are sent to shareholders or to the shareholder's security deposit bank. The general meeting of shareholders: · Elects the shareholders' representatives to the corporate assembly · Elects the external auditor and determines the auditor's remuneration · Approves the report according to Norwegian requirements and financial statements, including the dividend proposed by the board of directors and recommended by the corporate assembly · Elects the nomination committee and determines their remuneration · Deals with any other matters listed in the notice convening the meeting · Determines the remuneration of the corporate assembly Shareholders may, at least four weeks before an ordinary general meeting, request in writing that proposals for resolutions are	General meeting in May	The protocols can be found at www.hydro.com/governance
Corporate assembly Normally eighteen members. Twelve are elected by the general meeting of shareholders, six are elected by and among the group's employees in Norway. In accordance with Norwegian law, the corporate assembly: · Elects the board of directors and determines their remuneration · Nominates the external auditor to be elected by the general meeting of shareholders · Based on recommendations from the board of directors, makes decisions in matters relating to investments that are substantial in relation to Hydro's resources, and when closures and reorganizations will lead to significant changes for the workforce · Provides recommendations to the general meeting of shareholders with respect to approval of the board of directors' proposal regarding the financial statements and dividend	Five meetings. 92 percent meeting attendance. **Members*:** Siri Teigum (chairperson), Leif Teksum (deputy chairperson), Anne Kverneland Bogsnes, Anne-Margrethe Firing, Idar Kreutzer, Birger Solberg, Unni Steinsmo, Sten-Arthur Sælør, Lars Tronsgaard, Terje Venold, Tove Wangensten, Bjørn Nedreaas, Tor Egil Skulstad, Svein Kåre Sund, Eivind Torvik, Bente Østlyngen, Bjørn Øvstetun **Deputy members:** Kristin Færøvik, Jan Fredrik Meling, Shahzad Abid, Susanne Munch Thore, Jørn Lilleby, Trygve Eriksen, Rolf Arnesen, Leif Sundstrøm, Odd Arne Fodnes, Gro Thorstensen, Line Melkild, Einar Øren, Jan Einan, Odd Asbjørnsen, Roar Jakobsen, Arne Eide *Ann Kristin Sydnes (elected by the shareholders) stepped down from the corporate assembly September 17. The position is covered by the deputy members until the next ordinary election in 2014.	Note 44 to the consolidated financial statements for remuneration and share ownership Articles of association §§ 7-8 at www.hydro.com/governance
Nomination commitee Four members appointed by the general meeting of shareholders. The chairperson of the committee and at least one of the other members shall be elected among the shareholder-elected corporate assembly members. Nominates candidates to the board of directors, the corporate assembly and the nomination committee, and proposes remuneration to the board, its sub-committees, the corporate assembly and the nomination committee.	Ten meetings. 95 percent meeting attendance. Members: Siri Teigum (chairperson), Terje Venold*, Leif Teksum, Mette Wikborg * Terje Venold was elected by the general meeting of shareholders on May 8, replacing Westye Høegh.	Articles of association § 5A and biographical information can be found at www.hydro.com/governance
Board of directors On May 25, 2012 the board increased from 10 to 11 members. Eight are elected by the corporate assembly, three elected by and among the company's employees in Norway, normally for a period of two years. In accordance with Norwegian law, the board of directors assumes the overall governance of the company, ensures that appropriate management and control systems are in place and supervises the day-to-day management as carried out by the President and CEO.	15 meetings. 92 percent meeting attendance. Dag Mejdell joined the board of directors on 08 May 2012, Pedro Rodrigues on 21 September and Victoire de Margerie on 1 October. Tito Botelho Martins Jr. stepped down from the board of directors on 13 August 2012 and Bente Rathe on 30 September. The board has an annual plan for its work. It includes recurring topics such as a review of board procedures, competency, priorities, collaboration with the company's management, strategy review, business planning as well as HSE and CSR, including risk and compliance oversight.	The board's mandate can be found at www.hydro.com/governance Biographical information on the board members on page 142

Description	Developments and events in 2012	References
Board of directors (continued) All shareholder-elected members are external. No members elected by employees are part of the company's executive management. Employee directors have no other service contractual agreements with the company outside of their employee contracts, though they are subject to their duties as board members. The board of directors has an annual plan for its work. It includes recurring topics such as strategy review, business planning, risk and compliance oversight, financial reporting, people strategy, succession planning as well as HSE and CSR.	The board of directors is closely following the market and macro economic developments relevant for the aluminium industry. In 2012 the board used significant time on the transaction with Sapa. This included strategic positioning and risk oversight, valuation and agreeing on negotiation mandates. The board of directors visited Hydro's Sunndal plant in Norway to learn more about the operations, the progress of the USD 300 per ton aluminium improvement program in Primary Metal, and to learn more about technology development in Hydro. The three new board members went through an introduction program to learn about Hydro, its organization and management systems including HSE and CSR, and the aluminium industry in general. In 2012, the board also made a self-assessment and a separate assessment of the board's chairperson. Both were presented to the nomination committee. All shareholder-elected members except Martins and then Rodrigues were in 2012 deemed to be independent according to the Norwegian standards. None of the company's non-employee board members had any other service contractual agreements with the company. Martins/Rodrigues were not independent of Hydro's second largest shareowner, Vale.	Note 44 to the consolidated financial statements for remuneration, share ownership and loans
Compensation committee Consists of four of the board of directors' nine members. The committee reviews the performance of, and puts forward proposals regarding the compensation of the President & CEO to the board of directors. The committee assists in evaluating the compensation of the corporate management board and in determining performance-promoting schemes for management.	Seven meetings. Meeting attendance 93 percent. Members: Terje Vareberg (chairperson) Finn Jebsen Sten Roar Martinsen* Liv Monica Stubholt * Martinsen is employed in Hydro and represents the employees through the Norwegian Confederation of Trade Unions. We believe that such reliance does not adversely affect, in any material way, the ability of the compensation committee to act independently or to satisfy the other requirements.	The mandate can be found on www.hydro.com/governance
Audit committee Consists of four of the board of directors' 10 members. The audit committee meets Norwegian requirements regarding independence and competence. The audit committee assists the board of directors relating to the integrity of the company's financial statements and financial reporting processes and internal controls; the company's risk assessment and risk management policies related to financial reporting; the qualifications, independence and performance of the external auditor; and the performance of the internal audit function. To ensure the independence of the internal audit function, the head of Internal Audit reports functionally to the board through the audit committee. The audit committee maintains a pre-approval policy governing the engagement of the company's primary and other external auditors to ensure auditor independence.	Seven meetings. Meeting attendance 96 percent Members: Inge K Hansen (chairperson) Ove Ellingsen* Eva Persson Dag Mejdell Mejdell and Ellingsen joined the audit committee October 1, following Rathe and Fredagsvik. * Ellingsen is employed in Hydro and represents the employees through the Central Cooperative Council. We believe that such reliance does not adversely affect, in any material way, the ability of the audit committee to act independently or to satisfy the other requirements.	The mandate can be found on www.hydro.com/governance Pre-approval of audit services on page 140
President & CEO and corporate management board According to Norwegian corporate law, the President & CEO constitutes a formal governing body that is responsible for the daily management of the company. The division of functions and responsibilities between the President & CEO and the board of directors is defined in greater detail in the rules of procedures established by the board. The Corporate Management Board (CMB), including the President & CEO, has a shared responsibility for promoting Hydro's objectives and securing the company's property, organization and reputation. Members of the CMB are also Executive Vice Presidents (EVPs) with responsibility for the respective business areas, Finance, and Corporate Staffs and Legal.	Met every second week. On August 15, Tom Røtjer and Kjetil Ebbesberg stepped down from the CMB, reducing its members from 10 to eight. No member of Hydro's board of directors or the CMB has any family relationship with any other director or member of the CMB.	Biographical information on page 144 Note 10 and 11 to the consolidated financial statements for remuneration, share ownership and loans

Further on the 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 of October 2012. 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 2012.

All page numbers and notes to the financial statements refer to this report. All other references can be found at 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 two 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 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 is (as of 31.12.2012) 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

2 Hydro's business

Hydro is a global supplier of aluminium with businesses throughout the entire value chain, from extraction of bauxite to production of rolled and extruded aluminium products and building systems. The company has 22,000 employees in more than 40 countries, around 4,000 of whom are based in Norway. With more than 100 years of experience in producing renewable energy, technology development and innovative cooperation, Hydro aims to strengthen the viability of the customers we serve and the communities in which we operate.

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

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 authority was not given in 2012.

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 132.

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. Vale received a consideration totaling USD 1.1 billion in cash and new Hydro shares equivalent to a 22 percent share of the company's outstanding share capital. 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, management or related parties in 2012.

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

State ownership

As of December 31, 2012 the Norwegian state, represented by the Ministry of Trade and Industry, owned 34.26 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 131 and sale of the Hydro share in note 11 to the consolidated financial statements. Hydro's code of conduct can be found on www.hydro.com/principles. Hydro's articles of association can be found on www.hydro.com/governance. Learn more about major shareholders at page 134.

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, 2012 the Norwegian state, represented by the Ministry of Trade and Industry, owned 34.26 percent of Hydro's shares, while the Government Pension Fund Norway owned 3.89 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 43.73 percent to 34.3 percent. Under the agreement between Hydro and Vale, Vale may not increase its ownership interest in Hydro beyond 22 percent. Furthermore, Vale must retain its shares in Hydro for at least two years after the transaction is completed, and must not sell shares constituting more than 10 percent of Hydro's issued shares to any individual buyer or group.

References: Learn more about the Hydro share at page 131.

6 General meeting of shareholders

Notice of a general meeting of shareholders with supporting information is normally published on 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:

- 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 at least five working days 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

Deviations: See page 148.

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 January in 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. 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

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 and one member of the board of directors are dependent of major Hydro shareholders: Lars Tronsgård, who is an employee of the Government Pension Fund Norway, is a member of the corporate assembly, while Pedro Jose Rodrigues, who is global director of Mergers and Acquisitions in Vale S.A., is a member of the board of directors.

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 directors, including its chair and deputy chair.

In compliance with the company'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.

Since February 28, 2011 Vale has had a representative on Hydro's board. This decision was approved by Hydro's general meeting of shareholders and corporate assembly.

As of December 31, 2012, seven of the board's directors own a total of 106,015 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. Vale owns 447,834,465 shares in Hydro.

References: An overview of the members of the corporate assembly can be found at page 146. Vale S.A. and the Government Pension Fund Norway are significant shareholders in Hydro; see page 134. The current composition of the board of directors is listed at page 141 and information about their independence can be found at page 147. Hydro's articles of association can be found at www.hydro.com/governance

9 The work of the board of directors

The board of directors has established procedures for its own work and that of the company's management, with particular emphasis on clear internal division of responsibilities whereby the board has responsibility for supervising and administrating the company and the company's management has responsibility for the general operation of the group.

If the chairperson of the board is or has been actively involved in a given case, for example in negotiations on mergers, acquisitions etc., another board director will normally lead discussions concerning that particular case.

The board of directors has an annual work plan, with particular emphasis on objectives, strategy and implementation.

Since 2001, Hydro has had an audit committee and a compensation committee. The audit committee consists 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: The board of directors' mandate is available at www.hydro.com/governance. More information about the board of directors and its committees can be found at page 146-147. Information about the board members' competence can be found at page 146.

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 123.

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 to the consolidated financial statements. 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/principles. See also page 22.

13 Information and communication

Hydro has established guidelines for the company's reporting of financial and other 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.
A financial calendar is available in Hydro's annual report and on www.hydro.com

Shareholder information is available on 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 when distributed. Presentations 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 86, 131 and 141. A financial calendar is available on page 136 and at 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

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 is subject, Vale may 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 may sell its shares to a third party.

Deviations: *See page 148*

15 Auditor

Every year the external auditor presents to the audit committee the main features of the plan for the audit of the company.

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. At these 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 94, 140, F73, and note 43 to the consolidated financial statements.

Revenue 2012

NOK MILLION

64,181

07: Financial statements

Consolidated financial statements

Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended December 31	Notes	**2012**	2011
Revenue	7	**64 181**	71 500
Share of the profit (loss) in equity accounted investments	7, 25, 26	**(453)**	(276)
Other income, net	8	**853**	6 147
Total revenue and income		**64 580**	77 371
Raw material and energy expense	9	**41 559**	42 753
Employee benefit expense	11	**7 593**	7 150
Depreciation and amortization expense	12	**4 443**	4 421
Impairment of non-current assets	13	**1 100**	996
Other	14, 15	**9 453**	11 984
Total expenses		**64 148**	67 304
Earnings before financial items and tax	7	**432**	10 068
Financial income	16	**418**	203
Financial expense	16	**(766)**	(1 451)
Financial income (expense), net		**(348)**	(1 248)
Income from continuing operations before tax		**85**	8 819
Income taxes	17	**(803)**	(1 569)
Income (loss) from continuing operations		**(718)**	7 251
Loss from discontinued operations	5	**(528)**	(502)
Net income (loss)		**(1 246)**	6 749
Net income (loss) attributable to minority interests		**(13)**	44
Net income (loss) attributable to Hydro shareholders		**(1 233)**	6 705
Basic and diluted earnings per share from continuing operations	34	**(0.35)**	3.67
Basic and diluted earnings per share from discontinued operations	34	**(0.26)**	(0.26)
Basic and diluted earnings per share attributable to Hydro shareholders	34	**(0.61)**	3.41

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	**2012**	2011
Net income (loss)		**(1 246)**	6 749
Other comprehensive income			
Currency translation differences, net of tax	34	**(8 234)**	(3 264)
Unrealized gain (loss) on securities, net of tax	34	**(49)**	(259)
Cash flow hedges, net of tax	34	**(137)**	58
Share of other comprehensive income in equity accounted investments, net of tax	34	**(47)**	(289)
Other comprehensive income		**(8 468)**	(3 754)
Total comprehensive income		**(9 714)**	2 995
Total comprehensive income attributable to minority interests		**(962)**	(272)
Total comprehensive income attributable to Hydro shareholders		**(8 752)**	3 267

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

Consolidated balance sheets

Amounts in NOK million, December 31	Notes	2012	2011
Assets			
Cash and cash equivalents		**7 034**	8 365
Short-term investments	18	**4 343**	1 780
Accounts receivable	19	**8 761**	13 217
Inventories	20	**9 685**	14 157
Other current financial assets	40	**336**	666
Total current assets		**30 159**	38 185
Assets held for sale	5	**9 435**	-
Property, plant and equipment	22	**52 208**	64 192
Intangible assets	23, 24	**5 716**	7 930
Investments accounted for using the equity method	25, 26	**10 295**	11 442
Other non-current assets	21, 40	**6 170**	7 348
Prepaid pension	32	**1 660**	1 596
Deferred tax assets	33	**910**	1 860
Total non-current assets		**76 959**	94 368
Total assets	7	**116 552**	132 554
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	28	**5 956**	4 248
Trade and other payables	29	**8 336**	12 316
Provisions	31	**850**	1 369
Taxes payable		**1 913**	2 505
Other current financial liabilities	40	**466**	779
Total current liabilities		**17 522**	21 216
Liabilities in disposal groups	5	**3 394**	-
Long-term debt	30	**3 674**	4 190
Provisions	31	**3 091**	3 331
Pension obligation	32	**8 511**	9 099
Other non-current financial liabilities	40	**2 107**	2 943
Other liabilities		**982**	1 282
Deferred tax liabilities	33	**3 427**	5 325
Total non-current liabilities		**21 792**	26 170
Total liabilities		**42 709**	47 386
Share capital	34	**2 272**	2 272
Additional paid-in capital	34	**29 056**	29 056
Treasury shares	34	**(1 047)**	(1 084)
Retained earnings		**49 102**	51 792
Other components of equity	34	**(11 374)**	(3 856)
Equity attributable to Hydro shareholders		**68 009**	78 180
Minority interests		**5 835**	6 988
Total equity		**73 843**	85 168
Total liabilities and equity		**116 552**	132 554

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	**2012**	2011
Operating activities			
Net income (loss)		**(1 246)**	6 749
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations	5	**528**	502
Depreciation, amortization and impairment	7, 12, 13	**5 544**	5 416
Share of loss in equity accounted investments	7, 25, 26	**453**	276
Dividends received from equity accounted investments	25, 26	**-**	89
Deferred taxes		**(424)**	(283)
Gain on sale of non-current assets		**(67)**	(5 305)
Loss on foreign currency transactions	16	**280**	963
Net sales (purchases) of trading securities		**101**	(16)
Capitalized interest	16	**(15)**	(1)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		**706**	497
Inventories		**1 693**	(1 039)
Trade and other payables		**(914)**	945
Financial and commodity derivatives		**(897)**	(357)
Other items		**(308)**	(1 004)
Net cash provided by continuing operating activities	42	**5 434**	7 432
Investing activities			
Purchases of property, plant and equipment		**(3 256)**	(3 386)
Purchases of other long-term investments		**(158)**	(6 302)
Purchases of short-term investments		**(3 050)**	-
Proceeds from sales of property, plant and equipment		**73**	92
Proceeds from sales of other long-term investments		**99**	1 302
Net cash used in continuing investing activities		**(6 292)**	(8 294)
Financing activities			
Loan proceeds		**9 552**	3 668
Principal repayments		**(6 815)**	(2 873)
Net increase (decrease) in other short-term debt		**(492)**	130
Proceeds from shares issued		**72**	88
Dividends paid		**(1 741)**	(1 781)
Net cash provided by (used in) continuing financing activities		**576**	(768)
Foreign currency effects on cash and bank overdraft		**(344)**	(134)
Net cash used in discontinued operations	5	**(318)**	(627)
Net decrease in cash, cash equivalents and bank overdraft		**(944)**	(2 391)
Cash, cash equivalents and bank overdraft classified as assets held for sale		**(367)**	-
Cash, cash equivalents and bank overdraft at beginning of year		**8 344**	10 735
Cash, cash equivalents and bank overdraft at end of year	42	**7 033**	8 344

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

Consolidated statements of changes in equity

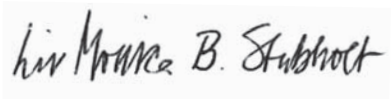
Amounts in NOK million	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other components of equity	Equity attributable to Hydro share-holders	Minority interest	Total equity
December 31, 2010		1 780	9 553	(1 112)	46 616	(418)	56 418	1 025	57 443
Shares issued	34	492	19 493				19 985		19 985
Treasury shares reissued to employees	34		11	28			39		39
Dividends	36				(1 527)		(1 527)	(314)	(1 841)
Minority interest recognized at acquisition of subsidiaries								6 470	6 470
Capital contribution in subsidiaries								78	78
Transactions with minority holders					(1)		(1)	1	-
Total comprehensive income for the year					6 705	(3 438)	3 267	(272)	2 995
December 31, 2011		2 272	29 056	(1 084)	51 792	(3 856)	78 180	6 988	85 168
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					(1 233)	(7 519)	(8 752)	(962)	(9 714)
December 31, 2012		2 272	29 056	(1 047)	49 102	(11 374)	68 009	5 835	73 843

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

Oslo, March 12, 2013

Terje Vareberg
Chair

Inge K. Hansen
Deputy chair



Liv Monica Bargem Stubholt
Board member

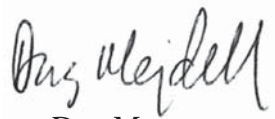
Ove Ellefsen
Board member

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 22,000 people in more than 40 countries (continuing and discontinued operations). Hydro is a global supplier of aluminium with operations throughout the industry value chain. Operations include power production, bauxite extraction, alumina refining, aluminium smelting and remelting, and rolling and extrusion 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 issued by the International Accounting Standards Board (IASB) that are also endorsed by the European Union (EU) and Norwegian authorities and are effective as of December 31, 2012. Hydro also provides the disclosure requirements as specified under the Norwegian Accounting Law (Regnskapsloven).

The following description of accounting principles applies to Hydro's 2012 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. Currently, one equity investment of less than 20 percent ownership is classified as an associate.

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 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. 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, joint ventures and associates with a functional currency other than Norwegian kroner (NOK) are translated into NOK. Assets and liabilities, including goodwill, are translating 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. 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 exists, in the period incurred in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Fair value is estimated as the present value of costs relating to dismantlement or removal of buildings or other assets, and/or the restoration or rehabilitation of industrial or mining sites. The liability is recognized when an asset is constructed and ready for use or when the obligation is incurred if imposed at a later date. Related asset retirement costs are capitalized and depreciated over the useful life of the asset. Accretion costs are recognized for the change in the present value of the liability and classified as part of Financial expense. Liabilities that are conditional on a future event (e.g. the timing or method of settlement) are recognized if the fair value of the liability can be reasonably estimated.

Intangible assets

Intangible assets acquired individually or as a group are recognized at fair value when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred.

Emission rights
Government granted and purchased CO_2 emission allowances expected to be used towards Hydro's own emissions are recognized as intangible assets at nominal value (cost). The amounts are not amortized but are tested for impairment at least annually. Actual CO_2 emissions which exceed the level covered by emission rights are recognized as a liability. Sale of emission rights are recognized at the time of sale at the transaction price. CO_2 emission allowances purchased for trading are measured and classified as inventory.

Research and development
Research expenditures are expensed as incurred. Development costs are capitalized as intangible assets at cost in accordance with IAS 38 Intangible Assets when the recognition criteria are met, including probable future economic benefit and that the cost can be measured reliably.

Exploration cost
Exploration cost for mineral resources are expensed as incurred. Costs related to acquired exploration rights are allocated to the relevant areas and capitalized. An area represents a unit that may be utilized based on shared infrastructure and may include

several licenses. Exploration rights are transferred to mine development cost when development starts. Exploration rights related to undeveloped areas remains on the balance sheet as intangible assets 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 financial 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, and 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 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. 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 in the income statement on a straight-line basis over the remaining vesting period. Past service cost related to benefits that are already vested are recognized immediately. Net cumulative actuarial gains and losses in excess of the greater of 10 percent of the benefit obligation (before deducting plan assets) and 10 percent of the fair value of any plan assets are recognized in the income statement over the remaining service period of active plan participants. When the number of active plan participants is negligible as compared to the number of inactive plan participants, then the excess cumulative actuarial gain (loss) is fully recognized at the beginning of the following year. The funded status of a defined benefit pension plan is measured as of December 31, and disclosed in note 32 Employee retirement plans.

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

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 2013:

- IFRS 13 Fair Value Measurement; effective date January 1, 2013.
- IAS 19 Employee Benefits (as revised in 2011); effective date January 1, 2013.
- IFRIC 20 Stripping Cost in the Production Phase of a Surface Mine; effective date January 1, 2013.

Standards to be implemented in 2014 or later years:

- 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).
- IFRS 9 Financial Instruments - Classification and Measurement; effective date January 1, 2015.

As of the date of issue of Hydro's financial statements, all of the new pronouncements to be implemented in 2013 were endorsed by the EU.

The implementation of IAS19R will impact how post employment benefits including pensions are measured and presented in the financial statements. The main effects are that all measurement changes are immediately recognized in the balance sheet with the effect reflected in Other Comprehensive Income. Further, a net interest cost is calculated based on the funded status of the plan at the beginning of the year. The interest is determined by reference to the market yield on high quality corporate bonds where a deep market for such bonds exists (including Norway, the Euro zone and the UK). Hydro has elected to classify the net interest component as Financial expense. The amended standard is expected to result in decreased recognized net pension obligation by about NOK 2.3 billion for Hydro's continuing operations. For Hydro's assets held for sale the expected effect is a decrease in net pension liabilities of about NOK 0.3 billion. There will also be changes in certain equity accounted investments. The changes are expected to result in a credit to equity on an after tax basis of about NOK 1.6 billion as of December 31, 2012. The pension cost included in EBIT for 2012 is expected to be about NOK 140 million lower compared to the previous principle, the expected charge to financial expense will be about NOK 280 million, and the credit to Other Comprehensive Income for 2012 is expected to be NOK 2.4 billion after tax.

Hydro is in the process of assessing its associates, joint ventures, jointly owned assets and part-owned subsidiaries to classify each investment under IFRS 10, IFRS 11 and IAS 28. Our preliminary assessment indicates that a few investments will be accounted for differently and the change will have limited impact on Hydro's financial statements. Hydro is also 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. 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 and operating expenses. 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 share is defined benefit plans. Measurement of pension cost and obligations under such plans require numerous assumptions and estimates that can have a significant impact on the recognized pension cost and obligation, such as future salary levels, discount rates, turnover rate, and 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, 2012 was 3.75 percent, based on the yield on covered bonds issued in Norway. Previous years the discount rates were based on government bond yield as no deep market for high quality corporate bonds was deemed to exist. 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 covered bonds is about 1.5 percentage points above the rate derived from government bonds, resulting in a reduction of the computed obligation of about NOK 2.3 billion at the end of 2012. Hydro's weighted average discount rate used is 3.3 percent for the main German plans. Hydro's weighted average discount rate at the end of 2012 was 0.4 percentage points above the rate used at the end of 2011 mainly due to the change in reference market in Norway, increasing the discount rate used for those plans by 1.25 percentage points, and reduced interest rates in the Euro zone reducing the discount rates for those plans by about 1.5 percentage points.

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 funded status of the plan as well as the net periodic pension cost. Hydro incurred an actuarial gain of NOK 2,600 million for the year, mainly resulting from increased discount rate in Norway and

higher than estimated return on plan assets. Actual return on plan assets was NOK 497 million above the estimated return for the year. The DBO is sensitive to changes in assumed discount rates and assumed compensation rates. Based on indicative sensitivities, a 0.5 percentage point reduction or increase in the discount rate will increase or decrease the DBO in the range of 7 percent, for 2012 this is around NOK 1.1 billion. A 0.5 percentage point reduction or increase in compensation rates for all plan member categories will decrease or increase the DBO in the range of 10 percent, for 2012 around NOK 1.5 billion. The DBO is also sensitive to demographic assumptions. An indicative sensitivity for change in mortality assumptions indicates that a one year increase in expected life for each plan member increases the DBO with around 5 percent, for 2012 around NOK 0.8 billion.

Business combinations and goodwill

In a business combination consideration, assets and liabilities are recognized at 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 detailed 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 third party 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.

Note 5 - Significant subsidiaries and changes to the consolidated group

There were no significant changes to the group during 2012.

The Hydro group's continuing operations consists of about 100 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 SA (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 3,226 million as of December 31, 2012.

Slovalco
Hydro holds 55 percent of the total shares and 60 percent of the voting interest in the Slovac 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 867 million as of December 31, 2012.

Alunorte
Hydro holds 92 percent of the shares in the Brazilian alumina refinery Alumina do Norte do Brasil S.A. (Alunorte), an increase from 91 percent during 2012. The minority interests has limited influence on the operational decisions. The minority interests in Alunorte amounted to NOK 1,519 million as of December 31, 2012.

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 Norwegain industrial group Orkla's fully-owned subsidiary Sapa. The new combined company, to be named Sapa, will be a 50/50 jointly controlled entity owned by Orkla and Hydro. The units to be 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 have production facilities in Europe, North and South America, and China and sells such products as aluminium extrusion and semi fabricated products for the building and construction, transportation and engineered products industrial sectors. Hydro will continue to deliver metal products to Sapa at market prices after closing. The transaction is subject to clearance by competition authorities in several countries. Completion of the transaction is considered highly probable and is expected to take place in the first half of 2013.

The Extruded Products business is reported as Assets held for sale as of mid October 2012. The results of operations in the businesses to be contributed to the jointly controlled entity are reported separately under the caption "Loss from discontinued operations" for the current and prior period. No interest expense related to loans is allocated to discontinued operations. 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 are reported as "Assets held for sale" and "Liabilities in disposal groups", respectively. The assets and related liabilities are carried at the lower of its value measured under the general principles, or its fair value as a disposal group. Prior period balance sheets are not reclassified. Other components of equity includes negative cumulative translation differences of NOK 804 million related to assets held for sale.

Asset groups held for sale

	December 31	
Amounts in NOK million	**2012**	2011
Current assets	**4 750**	-
Non-current assets	**4 684**	-
Total assets	**9 435**	-
Current liabilities	**782**	-
Non-current liabilities	**2 612**	-
Assets held for sale, net	**6 041**	-

Summary of financial data for discontinued operations

	01.01 - 31.12	
Amounts in NOK million	**2012**	2011
Revenue and other income	**17 598**	20 019
Share of the profit (loss) in equity accounted investments	**18**	16
Depreciation, amortization and impairment	**392**	742
Other expenses	**17 637**	19 533
Loss before financial items and tax	**(413)**	(240)
Financial income (expense), net	**(45)**	(40)
Loss before tax	**(458)**	(280)
Income tax expense	**(70)**	(222)
Loss from discontinued operations	**(528)**	(502)
Net cash provided by (used in) operating activities	**313**	(155)
Net cash used in investing activities	**(716)**	(470)
Net cash provided by financing activities	**123**	9
Foreign currency effects on cash	**(38)**	(11)
Net cash used in discontinued operations	**(318)**	(627)

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 2012 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.

In order to secure cash flow or margins for specific projects or special circumstances, Hydro might enter into future 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 produces more alumina than is consumed in its primary aluminium production. In addition, Hydro has entered into long-term agreements to purchase alumina from third parties. The majority of purchase and sale of alumina are under contracts where the price is linked to the LME aluminium price, but material tonnages are also 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. 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 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, US dollar and Canadian 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 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 net 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, 2012 and December 31, 2011, 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.

		Gain/loss from 10 percent increase in						
	Fair value as of December 31,	Foreign currency exchange rates			Commodity prices		Interest	
Amounts in NOK million	2012 [1]	USD	EUR	Other	Aluminium	Other	rates	Other
Derivative financial instruments [2]	-	-	-	-	-	-	-	-
Other financial instruments [3]	4 145	(759)	228	82	-	-	(6)	40
Derivative commodity instruments [4]	(297)	(295)	2	(2)	(8)	(149)	(39)	25
Financial instruments directly to equity [5]	727	150	(15)	-	213	50	(31)	90

		Gain/loss from 10 percent increase in						
	Fair value as of December 31,	Foreign currency exchange rates			Commodity prices		Interest	
Amounts in NOK million	2011 [1]	USD	EUR	Other	Aluminium	Other	rates	Other
Derivative financial instruments [2]	27	(75)	(20)	-	-	-	-	-
Other financial instruments [3]	7 890	(572)	285	79	-	-	(9)	41
Derivative commodity instruments [4]	(1 157)	(490)	1	3	(233)	(266)	(13)	4
Financial instruments directly to equity [5]	1 052	421	3	3	231	-	(42)	-

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:

- Include 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 unlikely 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. A committed credit facility from banks amounting USD 1.7 billion, maturing in 2014, remained undrawn. During 2012, Hydro issued a NOK 1.5 billion bond maturing in 2019.

Hydro has obtained bank guarantees to cover daily cash settlements for unrealized positions held toward electricity or commodity exchanges.

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 flow from derivatives accounted for as financial liabilities and financial assets, respectively, as of end of year:

	December 31, 2012		December 31, 2011	
Amounts in NOK million	Liabilities	Assets	Liabilities	Assets
2012			(711)	741
2013	(403)	525	(52)	63
2014	(568)	629	-	2
Total	(971)	1 154	(763)	806

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 six business areas Bauxite & Alumina, Primary Metal, Metal Markets, Rolled Products, Extruded Products and Energy. Extruded Products are excluded from the reporting as the segment is held for sale and discontinued operations from October 15, 2012, see note 5 Significant subsidiaries and changes to the consolidated group.

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 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 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 2012	External revenue 2011	Internal revenue 2012	Internal revenue 2011	Share of the profit (loss) in equity accounted investments 2012	Share of the profit (loss) in equity accounted investments 2011
Bauxite & Alumina	**8 459**	8 595	**4 806**	5 876	**-**	6
Primary Metal	**4 479**	4 462	**22 210**	30 258	**(324)**	13
Metal Markets	**28 960**	33 363	**10 971**	15 362	**-**	-
Rolled Products	**20 000**	21 392	**80**	(95)	**(67)**	(76)
Energy	**2 095**	3 424	**2 595**	2 969	**(2)**	15
Other and eliminations	**187**	264	**(40 663)**	(54 369)	**(61)**	(235)
Total	**64 181**	71 500	**-**	-	**(453)**	(276)

Amounts in NOK million	Earnings before financial items and tax (EBIT) [1] 2012	Earnings before financial items and tax (EBIT) [1] 2011	Depreciation, amortization and impairment 2012	Depreciation, amortization and impairment 2011	EBITDA 2012	EBITDA 2011
Bauxite & Alumina	**(783)**	5 846	**1 750**	1 580	**967**	7 438
Primary Metal	**(1 275)**	1 265	**3 026**	3 136	**1 768**	4 421
Metal Markets	**135**	457	**174**	101	**309**	557
Rolled Products	**791**	66	**401**	399	**1 245**	519
Energy	**1 448**	2 550	**129**	132	**1 577**	2 685
Other and eliminations	**116**	(116)	**63**	69	**218**	109
Total	**432**	10 068	**5 544**	5 416	**6 083**	15 730

Amounts in NOK million	Non-current assets 2012	Non-current assets 2011	Total assets [2] 2012	Total assets [2] 2011	Investments [3] 2012	Investments [3] 2011
Bauxite & Alumina	**37 974**	43 603	**42 208**	48 895	**1 430**	36 865
Primary Metal	**26 790**	33 133	**33 927**	42 138	**1 023**	9 505
Metal Markets	**880**	1 165	**6 038**	8 079	**37**	103
Rolled Products	**4 961**	4 636	**11 811**	12 059	**405**	435
Extruded Products	**-**	4 653	**-**	10 497	**-**	-
Energy	**4 863**	5 420	**5 717**	6 436	**430**	564
Other and eliminations	**1 492**	1 758	**7 415**	4 449	**56**	39
Total continued operations	**76 959**	94 368	**107 117**	132 554	**3 382**	47 510
Classified as held for sale			**9 435**	-		
Total			**116 552**	132 554		

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. Investments 2011 include investments related to the acquisition of Vale Aluminium with NOK 35,321 million for Bauxite & Alumina and NOK 8,055 million for Primary Metal.

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.

	Revenue		Non-current assets		Investments [3]	
Amounts in NOK million	**2012**	2011	**2012**	2011	**2012**	2011
Norway	**2 880**	4 326	**15 593**	16 749	**1 079**	1 122
Germany	**9 957**	10 592	**4 374**	5 048	**321**	345
Great Britain	**4 442**	4 233	**209**	264	**3**	11
Italy	**2 506**	3 323	**239**	407	**17**	18
Spain	**2 069**	2 298	**57**	567	**2**	7
France	**1 703**	1 949	**38**	655	**4**	7
Poland	**1 655**	1 911	**-**	111	**-**	-
The Netherlands	**1 459**	1 554	**488**	569	**84**	53
Austria	**1 028**	1 343	**-**	194	**-**	-
Other	**4 211**	5 432	**1 099**	1 924	**77**	66
Total EU	**29 030**	32 635	**6 504**	9 739	**508**	506
Switzerland	**3 715**	7 840	**238**	366	**-**	2
Other Europe	**3 083**	3 068	**-**	-	**-**	-
Total Europe	**38 708**	47 869	**22 335**	26 853	**1 587**	1 630
USA	**5 199**	4 949	**323**	1 230	**7**	22
Canada	**166**	250	**1 475**	1 670	**74**	89
Brazil	**1 883**	1 218	**43 948**	53 118	**1 644**	45 014
Other Americas	**749**	381	**-**	117	**-**	10
Qatar	**1 596**	1 484	**7 978**	8 852	**-**	306
Other Asia	**14 393**	13 879	**126**	471	**6**	18
Australia and New Zealand	**1 105**	1 133	**773**	2 057	**62**	424
Africa	**383**	338	**-**	-	**-**	-
Total outside Europe	**25 473**	23 631	**54 624**	67 515	**1 795**	45 882
Total continued operations	**64 181**	71 500	**76 959**	94 368	**3 382**	47 510

Note 8 - Other income

Amounts in NOK million	**2012**	2011
Gain on sale of property, plant and equipment	**47**	74
Gain on previous ownership interests in acquired subsidiaries [1]	**-**	4 222
Gain on sale of subsidiaries, associates and jointly controlled entities	**47**	1 126
Revenue from utilities [2]	**128**	131
Rental revenue	**303**	314
Other [3]	**328**	281
Other income, net	**853**	6 147

1) Remeasurment gain on the previous ownership interests in Alunorte and CAP.

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

3) Other includes government grants, royalties, insurance compensation and settlements of pre-existing relationships in acquired entities.

Note 9 - Raw material and energy expense

Amounts in NOK million	2012	2011
Raw material expense and production supplies	**40 929**	42 694
Change in inventories own production	**404**	(91)
Write-downs of inventories	**239**	152
Reversals of write-downs of inventory	**(13)**	(1)
Raw material and energy expense	**41 559**	42 753

Raw material expense and production supplies 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 annual 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 annual 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.

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 2013. The Board of Directors proposes that the guidelines set forth below shall apply for 2013 and up until the annual shareholders' meeting in 2014.

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 labor 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. 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 organizational key performance indicators (KPIs) including targets relating to safety and environment (HSE) and corporate social responsibility (CSR), and (c) compliance with and the promotion of Hydro's core values ("The Hydro Way"). The targets are established as part of the annual business-planning process. 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), together with delivery of operational goals within pre-defined budgetary frameworks. 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 remuneration 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 will be 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, 2013 just under 30 percent of the employees in Norway have a the 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). In 2012 a new assessment of Hydro's current pension systems was initiated, including special arrangements for senior executives. Conclusions from the assessment will be based on new legislation resulting from the work of the Norwegian Banking Law Commission.

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.

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.

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 Oliver Bell and Hans-Joachim Kock are employed by a foreign subsidiary. Their base salaries and other conditions of employment are determined in accordance with Hydro's global human resources policy and local industry standards. Certain special conditions apply with regards to Johnny Undeli's responsibilities in Brazil, but his remuneration generally accords with those of other members of the Corporate Management Board. Undeli, Bell and Kock 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 in essence on the same guidelines as those described above.

In July 2012, the Board of Directors decided to increase the CEO's base salary by 2.3 percent, from NOK 5,500,000 to NOK 5,627,000 with effect from January 1, 2012.

The base salary of the other members of the Corporate Management Board (excluding CEO) increased in the annual salary adjustment by between 2.0 percent and 4.4 percent in 2012, with an average increase of 2.6 percent.

Bonus payments for 2011 were determined and paid in 2012 on the basis of the principles described above (see also note 11 Employee and management remuneration).

Bonus payments for 2012 will be determined and paid in 2013 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, bonus, share based long term incentive for 2011 and 2010 settled in 2012 and 2011, respectively, and the estimated increase in the value of their pension benefits, as well as any loans outstanding and Hydro share ownership as of December 31, 2012 and 2011 are shown in the table below. Hydro did not have any guarantees made on behalf of any of the corporate management board members during 2012 and 2011.

			Remuneration paid							
Name	Base salary 1) 2)	Maximum bonus potential 1) 2)	Salary 1) 3)	In kind 1) 3)	Bonus 1) 3)	Long-term incentive plan (LTI) 1) 3)	Pension benefits 1) 4)	Out-standing loans 1) 5)	LTI-shares allocated	Hydro share ownership 6)
2012										
Svein Richard Brandtzæg	5 627	2 814	6 068	273	1 655	1 650	3 415	-	23 820	90 967
Jørgen C. Arentz Rostrup[7)]	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[8)]	2 611	653	2 800	218	615	640	920	-	10 009	17 042
Tom Røtjer[8)]	2 721	680	2 943	234	641	667	2 209	-	9 829	39 975
2011										
Svein Richard Brandtzæg	5 500	2 750	5 632	225	1 937	1 545	5 667	449	16 454	62 847
Jørgen C. Arentz Rostrup	3 015	1 206	3 075	170	828	725	3 541	-	7 564	22 902
Johnny Undeli	6 040	1 236	6 136	215	876	750	2 117	-	8 150	13 132
Hilde Aasheim	2 870	1 148	2 962	230	835	690	2 451	-	7 048	11 112
Kjetil Ebbesberg	2 560	1 024	2 643	184	766	618	1 534	-	6 979	8 033
Oliver Bell	3 962	1 585	3 980	166	1 307	988	1 509	-	11 415	14 415
Hans-Joachim Kock	4 880	1 357	5 008	1 457	1 211	497	1 359	-	5 825	13 325
Arvid Moss	2 665	1 066	2 705	209	764	644	3 042	-	7 136	75 957
Tom Røtjer	2 668	1 067	2 808	178	730	648	3 177	-	6 896	29 846
Wenche Agerup	2 570	1 028	2 603	182	645	489	2 785	230	5 100	20 637

1) Amounts in NOK thousand. Amounts paid by subsidiaries outside Norway have been translated to NOK at average exchange rates for each year.

2) Base salary is 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. 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 the gross (pre-tax) amounts.

4) The estimated change in the value of pension benefits reflects both the effect of earning an additional year's pension benefit and the adjustment to present value of previously earned pension rights. It is calculated as the increase in the Defined Benefit Obligations (DBO) calculated with stable assumptions. As such, the number includes both the annual accrual of pension benefits and the interest element related to the total accrued pension benefit. For all individuals listed in the table, this is the estimated change from January 1 to December 31.

5) The loans to corporate management board members, including close familiy members, were extended under an employee benefit scheme applicable to all employees in Norway. Per December 31, 2012, no loans were outstanding. Per December 31, 2011, the loans to Svein Richard Brandtzæg had interest rates of 3.75 and 3.9 percent and repayment periods of six and eight years. The loan to Wenche Agerup had an interest rate of 7.25 percent and a repayment period of two years. The loans were repaid in 2012.

6) 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.

7) Jørgen C. Arentz Rostrup stepped down from the Corporate Management Board and left Hydro as of February 15, 2013.

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

Under the long term incentive for 2010 settled in 2012 and 2011, former corporate management board member Ola Sæter received 1,796 and 3,741 shares with a gross (pre-tax) value of NOK 162 thousand and NOK 338 thousand, respectively. Under the long term incentive for 2010 settled in 2011, former corporate board member Odd Ivar Biller received 2,222 shares with a gross (pre-tax) value of NOK 196 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 and 2011, Reiten received a total remuneration of NOK 1,593 thousand and NOK 6,404 thousand, respectively.

United Kingdom employee share-based compensation

In 1988, Hydro established a stock option share purchase program for employees in the United Kingdom. The last options were granted in July 2002 and the program was operational until July 2012, when the last remaining options expired. No further options will be granted. During 2012 and 2011 no options were exercised.

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 2011 performance measurement period was accrued and recognized over the service period of December 31, 2011 through March 31, 2012, the final acceptance date of the offer. In 2012 and 2011 the participation rates of eligible employees in the employee share purchase plan were 81 and 82 percent, respectively. Details related to the employee share purchase plan are given in the table below.

Employee share purchase plan

Performance measurement period	2012	2011	2010
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	**2012**	2011
Award share price, NOK	**33.25**	46.01
Number of shares issued, per employee	**300**	217
Total number of shares issued to employees	**981 300**	759 283
Compensation expense related to the award, NOK thousand	**8 157**	8 734

Employee benefit expense

The average number of employees for 2012 and 2011 was 22,172 and 22,595, respectively. As of year end 2012 and 2011 Hydro employed 21,566 and 22,813 people, respectively. The average number of employees in continuing operations for 2012 and 2011 was 13,138 and 13,083, respectively. As of year end 2012 and 2011, Hydro's continuing operations employed 12,994 and 13,304 people, respectively. The specification of employee benefit expenses for 2012 and 2011 is given in the table below.

Employee benefit expense

Amounts in NOK million	**2012**	2011
Salary	**5 814**	5 769
Social security costs	**771**	748
Other benefits	**418**	26
Net periodic pension cost (note 32)	**591**	607
Total	**7 593**	7 150

Note 12 - Depreciation and amortization expense

Specification of depreciation and amortization by asset category

Amounts in NOK million	**2012**	2011
Buildings	**612**	686
Machinery and equipment	**4 070**	4 077
Intangible assets	**117**	164
Depreciation and amortization from discontinued operations	**(355)**	(507)
Depreciation and amortization expense	**4 443**	4 421

Note 13 - Impairment of non-current assets

Amounts in NOK million	**2012**	2011
Classification by asset category		
Impairment losses		
Property, plant and equipment	**1 118**	1 153
Intangible assets	**20**	78
Impairment from discontinued operations	**(37)**	(235)
Total impairment of non-current assets	**1 100**	996
Classification by segment		
Impairment losses		
Primary Metal	**1 019**	970
Metal Markets	**76**	-
Energy	**5**	21
Other activities	**-**	5
Total impairment of non-current assets	**1 100**	996

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 10.25 and 13.5 percent (2011: 9-12 percent). Impairment losses have been recognized where the recoverable amount is less than the carrying value.

Hydro Primary Metal's Kurri Kurri plant in Australia was written down by NOK 970 million in 2011, following the decline in aluminium prices and uncertain market outlook, in combination with a strong Australian dollar. The recoverable amount was determined based on the VIU. In 2012, after management's decision to close the production, the plant was written down by an additional 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 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	**2012**	2011
Alunorte (Bauxite & Alumina)	**2 811**	3 310
Remelters sector (Metal Markets)	**228**	244
Extruded Products	**-**	747
Total goodwill	**3 040**	4 301

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 NOK 38 billion. The value exceeds the carrying value by about 20 percent. The calculation used cash flow projections in BRL based on business plans approved by management covering a five-year period. 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. 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. Production volumes are assumed to be stable through the period. Cash flows beyond the five-year period are inflated by the expected long-term inflation levels.

The main assumptions to which the test is sensitive are the expected sales price for alumina, the exchange rate between the US dollar and the Brazilian real and the discount rate. For the alumina sales price we have assumed price levels equivalent to real-term prices in the range of 350-375 US dollar per mt. Cash flows denominated in US dollars are translated to BRL at a stable rate equal to the exchange rate at year-end for the first five years, 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 discount rate assumed is 13.5 percent, reflecting a nominal pre-tax discount rate. If one of the key parameters were changed with no changes to the other assumptions, the recoverable amount for the CGU would equal the carrying amount with a discount rate of 15.5 percent, a reduction of the alumina price of 5 percent, or a stronger BRL to USD by 7 percent over the entire 40-year period.

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 247 million in 2012 and NOK 248 million in 2011. 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.

Note 15 - Operating leases

Future minimum lease payments due under non-cancellable operating leases are as follows:

Operating lease expense for office space, machinery and equipment amounts to NOK 328 million for 2012 and NOK 322 million for 2011.

Amounts in NOK million	Less than 1 year	1-5 years	Thereafter	Total
Operating lease obligation 2012	290	1 201	2 034	3 525
Operating lease obligation 2011	378	1 414	3 609	5 401

Note 16 - Financial income and expense

Amounts in NOK million	**2012**	2011
Interest income	**286**	256
Dividends received and net gain (loss) on securities	**133**	(53)
Financial income	**418**	203
Interest expense	**(393)**	(348)
Capitalized interest	**15**	1
Net foreign exchange gain (loss)	**(280)**	(963)
Other	**(108)**	(141)
Financial expense	**(766)**	(1 451)
Financial income (expense), net	**(348)**	(1 248)

Note 17 - Income tax expense

Amounts in NOK million	**2012**	2011
Income (loss) from continuing operations before taxes		
Norway	**2 035**	4 340
Other countries	**(1 950)**	4 480
Total	**85**	8 819
Current taxes		
Norway	**820**	1 335
Other countries	**408**	517
Current income tax expense	**1 227**	1 852
Deferred taxes		
Norway	**229**	370
Other countries	**(654)**	(653)
Deferred tax expense (benefit)	**(424)**	(283)
Total income tax expense (benefit)	**803**	1 569

Components of deferred taxes

Origination and reversal of temporary differences	**302**	(377)
Benefit tax loss carryforwards	**(1 038)**	(335)
Net change in unrecognized deferred tax assets	**395**	561
Tax expense (benefit) allocated to Other components of equity	**(83)**	(132)
Deferred tax expense (benefit)	**(424)**	(283)

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

Amounts in NOK million	**2012**	2011
Expected income taxes at statutory tax rate [1]	**24**	2 469
Hydro-electric power surtax [2]	**399**	584
Equity accounted investments	**127**	77
Foreign tax rate differences	**(412)**	(356)
Tax free income	**(99)**	(1 620)
Losses, other tax benefits and deductions with no tax benefits, net	**765**	414
Income tax expense (benefit)	**803**	1 569
Effective tax rate	**949.5%**	17.8%

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	**2012**	2011
Bank, time deposits	**3 050**	-
Equity securities	**820**	845
Debt securities	**433**	456
Other	**40**	479
Total short-term investments	**4 343**	1 780

Note 19 - Accounts receivable

Amounts in NOK million	**2012**	2011
Trade receivables	**6 379**	10 749
Allowance for credit losses	**(85)**	(392)
VAT receivables	**791**	880
Other receivables	**1 676**	1 980
Accounts receivable	**8 761**	13 217

Note 20 - Inventories

Amounts in NOK million	**2012**	2011
Raw materials	**3 957**	6 103
Work in progress	**2 597**	3 002
Finished goods	**3 130**	5 052
Inventories	**9 685**	14 157

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

Note 21 - Other non-current assets

Amounts in NOK million	**2012**	2011
Non-marketable equity securities	**918**	1 052
Other securities	**536**	536
Employee loans	**184**	222
Derivative instruments	**498**	450
Prepaid taxes	**3 262**	4 090
Other receivables	**773**	999
Other non-current assets	**6 170**	7 348

Note 22 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
Cost					
December 31, 2010	933	15 871	42 968	984	60 754
Acquisitions through business combinations	36	6 374	35 207	1 823	43 439
Other additions	-	148	1 262	2 733	4 144
Disposals	(1)	(169)	(660)	-	(831)
Transfers	9	199	1 096	(1 305)	-
Foreign currency translation effect	(5)	(313)	(1 760)	(148)	(2 226)
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
Accumulated depreciation and impairment					
December 31, 2010	(1)	(8 258)	(27 641)	(5)	(35 905)
Depreciation for the year	-	(686)	(4 077)	-	(4 763)
Impairment losses	(48)	(272)	(758)	(75)	(1 153)
Disposals	-	140	602	-	743
Transfers	-	(7)	7	-	-
Foreign currency translation effect	-	(6)	4	(7)	(10)
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)
Carrying value					
December 31, 2011	922	13 019	46 252	3 999	64 192
December 31, 2012	607	11 166	37 561	2 874	52 208

Note 23 - Intangible assets

Amounts in NOK million	Intangible assets under development	Capitalized software systems	Mineral rights	Other intangible assets	Total
Cost					
December 31, 2010	55	1 228	-	1 451	2 735
Acquisitions through business combinations	-	74	1 113	1 855	3 043
Other additions	33	46	-	94	173
Disposals	-	(8)	-	(39)	(47)
Transfers	(5)	-	-	5	-
Foreign currency translation effect	-	(7)	(46)	(119)	(172)
December 31, 2011	84	1 334	1 067	3 247	5 731
Additions	56	19	-	3	77
Disposals	-	(13)	(4)	(74)	(90)
Transfers	(1)	1	-	-	-
Assets classified as held for sale	(20)	(451)	-	(462)	(933)
Foreign currency translation effect	-	(55)	(160)	(304)	(520)
December 31, 2012	118	836	903	2 409	4 266
Accumulated amortization and impairment					
December 31, 2010	-	(797)	-	(1 003)	(1 800)
Amortization for the year [1)]	-	(108)	-	(139)	(247)
Impairment loss	-	-	-	(77)	(78)
Disposals	-	7	-	5	12
Foreign currency translation effect	-	4	-	8	12
December 31, 2011	-	(895)	-	(1 207)	(2 102)
Amortization for the year [1)]	-	(87)	-	(132)	(220)
Impairment loss	-	(1)	-	(19)	(20)
Disposals	-	14	-	27	41
Assets classified as held for sale	-	259	-	358	617
Foreign currency translation effect	-	38	-	56	94
December 31, 2012	-	(672)	-	(917)	(1 589)
Carrying value					
December 31, 2011	84	438	1 067	2 040	3 629
December 31, 2012	118	163	903	1 492	2 677

1) Amortization of a sourcing contract is reported as Raw material and energy expense in the income statement.

Note 24 - Goodwill

Amounts in NOK million	Bauxite & Alumina	Metal Markets	Extruded Products	Total
Cost				
December 31, 2010	-	238	747	985
Additions	3 499	-	-	3 499
Foreign currency translation effect	(189)	6	-	(183)
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
Carrying value				
December 31, 2011	3 310	244	747	4 301
December 31, 2012	2 811	228	-	3 040

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

Note 25 - Investments in associates

Amounts in NOK million	Alunorte	Aluchemie	SKS Pro-duksjon	NorSun	Ascent Solar	Other	Total
December 31, 2010	6 724	565	338	120	135	265	8 148
Investments							-
Change in long-term advances, net		10				(10)	-
Hydro's share of net income (loss)	21	14	20	(4)	(44)	10	18
Amortization	(3)	(16)	(3)			(3)	(25)
Impairment losses				(116)	(56)		(172)
Dividends and other payments received by Hydro	(43)		(35)			(3)	(81)
Derecognized investments	(6 482)		(340)			(122)	(6 944)
Foreign currency translation and other	(217)	(4)	20		(7)	(4)	(211)
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

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 748 million in 2012 and NOK 824 million in 2011 based on a cost plus formula. Sales of anode butts and coke from Hydro to Aluchemie amounted to NOK 87 million in 2012 and NOK 120 million in 2011. Hydro is committed to purchase a share of produced anodes based on it's 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.

NorSun AS (**NorSun**) is a company in the solar industry. Hydro owns 17.4 percent of NorSun. Significant influence is obtained through representation in the board of directors as agreed in the shareholders agreement. Hydro's investment is fully impaired.

Note 26 - Investments in jointly controlled entities

Amounts in NOK million	Alunorf	Søral	Qatalum	Alpart	Other	Total
December 31, 2010	1 241	647	8 574	(68)	106	10 501
Investments (sale), net			599	77	(1)	675
Change in long-term advances, net	(13)		(293)			(306)
Hydro's share of net income (loss)	(6)	(16)	30	(2)	5	11
Amortization	(54)					(54)
Impairment losses				(10)	1	(9)
Dividends and other payments received by Hydro	(8)				(9)	(17)
Foreign currency translation and other	(8)		(98)	3		(103)
December 31, 2011	1 152	631	8 812	-	102	10 697
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)
Amortization	(52)					(52)
Impairment losses					(2)	(2)
Dividends and other payments received by Hydro						-
Foreign currency translation and other	(55)		(592)		(37)	(684)
December 31, 2012	1 019	597	7 979	-	65	9 660

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

Specification of jointly controlled entities

Amounts in NOK million, except ownership	Percentage owned by Hydro at year end **2012**	Investments in and advances to investees **2012**	2011	Hydro's current trade receivable (payable), net with investees **2012**	2011
Alunorf	**50.0%**	**1 019**	1 152	**(243)**	(306)
Søral	**49.9%**	**597**	631	**(96)**	(92)
Qatalum	**50.0%**	**7 979**	8 812	**(660)**	(664)
Others		**65**	63	**-**	(2)
Total		**9 660**	10 658	**(999)**	(1 064)

Below is a description of significant jointly controlled entities' business operation, ownership and the nature of related party transactions with Hydro including amounts if material. 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 1,423 million in 2012 and NOK 1,475 million in 2011. Hydro's capital and financing commitments are regulated in the Joint Venture agreement. Hydro's financing commitment based on its interest is NOK 109 million as of December 31, 2012. 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 667 million in 2012 and NOK 956 million in 2011. Sale of alumina and metal from Hydro to Søral amounted to NOK 198 million in 2012 and NOK 458 million in 2011. 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 8,549 million in 2012 and NOK 6,358 million in 2011. Sales from Hydro to Qatalum amounted to NOK 1,537 million in 2012 and NOK 1,192 million in 2011. Qatalum is part of Primary Metal.

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)	**2012**	2011
Income statement data		
Revenues	**13 711**	12 012
Earnings before financial items and tax	**(235)**	178
Income (loss) before tax	**(651)**	7
Net income (loss)	**(611)**	(28)
Balance sheet data		
Current assets	**6 756**	7 309
Non-current assets	**30 435**	34 042
Assets	**37 191**	41 351
Current liabilites	**2 619**	1 774
Non-current liabilities	**15 507**	18 515
Equity	**19 065**	21 062
Liabilites and equity	**37 191**	41 351

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	**2012**	2011
Property, plant and equipment	**2 090**	2 362
Share of expenses	**1 201**	1 173
Depreciation and amortization	**247**	230
Produced volume (kmt)	**186**	183

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

Amounts in NOK million	**2012**	2011
Bank loans and overdraft facilities	**4 428**	2 779
Other interest-bearing short-term debt	**395**	416
Current portion of long-term debt	**1 133**	1 053
Bank loans and other interest-bearing short-term debt	**5 956**	4 248

Note 29 - Trade and other payables

Amounts in NOK million	**2012**	2011
Accounts payable	**6 085**	8 736
Payroll and value added taxes	**1 198**	2 023
Accrued liabilities and other payables	**1 053**	1 556
Trade and other payables	**8 336**	12 316

Note 30 - Long-term debt

Long-term debt payable in various currencies

Amounts in NOK million	**2012**	2011
USD	**2 520**	4 340
NOK	**1 500**	3
Other	**-**	1
Total unsecured loans	**4 020**	4 344
Other long-term debt	**787**	898
Outstanding debt	**4 807**	5 242
Less: Current portion	**(1 133)**	(1 052)
Total long-term debt	**3 674**	4 190

Norsk Hydro ASA has a USD 1,700 million, seven-year revolving multi-currency credit facility with a syndicate of international banks, maturing in July 2014. 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, 2012.

Repayments of long-term debt including interest

Amounts in NOK million	Unsecured loans	Other	Interest	Total
2013	376	757	137	1 270
2014	376	8	114	498
2015	408	7	108	523
2016	440	7	101	547
2017	347	7	93	447
Thereafter	2 074	1	176	2 250
Total	4 020	787	728	5 535

Note 31 - Provisions

	2012			2011		
Amounts in NOK million	**Short-term**	**Long-term**	**Total**	Short-term	Long-term	Total
Warranties	**46**	**-**	**46**	53	1	54
Exit and disposal activities	**32**	**1**	**33**	153	1	154
Environmental clean-up and asset retirement obligations (ARO)	**105**	**1 631**	**1 736**	134	1 699	1 833
Medical and other employee benefits	**167**	**361**	**528**	337	452	790
Social security costs on pension	**-**	**638**	**638**	-	644	644
Insurance	**432**	**-**	**432**	575	-	575
Other	**68**	**460**	**528**	117	532	650
Total provisions	**850**	**3 091**	**3 941**	1 369	3 331	4 700

The following table includes a specification of changes to provisions for the year ending December 31, 2012 and the expected timing of cash outflows relating to the provisions.

Amounts in NOK million	Warran-ties	Exit and disposal	Environ-mental clean-up and ARO	Medical and other employee benefits	Social security costs pension	Insur-ance	Other	Total
Specification of change in provisions								
December 31, 2011	54	154	1 833	790	644	575	650	4 700
Additions	113	453	222	458	54	219	112	1 631
Used during the year	(95)	(411)	(102)	(392)	(44)	(256)	(79)	(1 379)
Reversal of unused provisions	(21)	(11)	(46)	(173)	(1)	(105)	(26)	(384)
Accretion expense and effect of change in discount rate	-	-	46	-	-	-	-	46
Provisions in disposal groups	(2)	(145)	(45)	(131)	(15)	-	(43)	(381)
Foreign currency translation	(2)	(7)	(171)	(25)	-	-	(86)	(291)
December 31, 2012	46	33	1 736	528	638	432	528	3 941
Timing of cash outflows								
2013	46	32	105	167	-	432	68	850
2014-2017	-	1	839	138	291	-	45	1 314
Thereafter	-	-	792	223	347	-	415	1 777
December 31, 2012	46	33	1 736	528	638	432	528	3 941

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 medical benefits primarily relate to post-retirement medical benefits for employees in North America. Provisions for other 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.

Provisions for social security costs on pension relate primarily to operations in Europe having defined benefit pension plans. See note 32 Employee retirement plans for additional information.

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 226 million and NOK 328 million as of December 31, 2012 and 2011, respectively.

Note 32 - Employee retirement plans

Pension Benefits

Norsk Hydro ASA and some of its subsidiaries have defined benefit retirement plans that cover the majority of their employees. These plan benefits are generally based on years of service and final salary levels. Other companies, including the Brazilian businesses, have defined contribution plans. Most defined benefit plans in Norway are closed for new members and new employees become members of a defined contribution plan.

Amounts in NOK million	**2012**	2011
Net periodic pension cost		
Defined benefit plans		
Benefits earned during the year, net of participants' contributions	**358**	323
Interest cost on prior period benefit obligation	**531**	641
Expected return on plan assets	**(395)**	(531)
Recognized (gain) loss	**-**	6
Past service cost	**4**	10
Curtailment/settlement (gain) loss	**48**	-
Net periodic pension cost	**547**	449
Defined contribution plans	**64**	64
Multiemployer plans	**31**	31
Termination benefits and other	**(51)**	63
Total net periodic pension cost	**591**	607
Change in defined benefit obligation (DBO)		
Defined benefit obligation at beginning of year	**(20 486)**	(18 356)
Benefits earned during the year	**(384)**	(347)
Interest cost on prior period benefit obligation	**(624)**	(740)
Actuarial gain (loss)	**2 600**	(1 817)
Plan amendments	**-**	(5)
Benefits paid	**853**	844
Curtailment/settlement gain (loss)	**101**	-
Special termination benefits	**(49)**	(43)
Reclassified to liabilities in disposal groups	**2 240**	-
Foreign currency translation	**267**	(22)
Defined benefit obligation at end of year	**(15 481)**	(20 486)

Change in pension plan assets

Amounts in NOK million	**2012**	2011
Fair value of plan assets at beginning of year	**12 582**	12 536
Actual return on plan assets	**892**	349
Company contributions	**224**	166
Plan participants' contributions	**5**	5
Benefits paid	**(528)**	(525)
Settlements	**(5)**	-
Reclassified to Assets Held for Sale	**(2 239)**	-
Foreign currency translation	**(63)**	51
Fair value of plan assets at end of year	**10 867**	12 582

Status of pension plans reconciled to balance sheet

Defined benefit plans		
Funded status of the plans at end of year	**(4 614)**	(7 904)
Unrecognized net (gain) loss	**(2 022)**	864
Unrecognized past service cost	**3**	6
Net accrued pension recognized	**(6 634)**	(7 033)
Termination benefits and other	**(218)**	(470)
Total net accrued pension recognized	**(6 852)**	(7 503)
Amounts recognized in the balance sheet consist of		
Prepaid pension	**1 660**	1 596
Accrued pension liabilities	**(8 511)**	(9 099)
Net amount recognized	**(6 852)**	(7 503)

Weighted-average assumptions used to determine net periodic pension cost

Discount rate	**3.0%**	4.0%
Expected return on plan assets	**4.0%**	5.2%
Rate of compensation increase	**2.5%**	2.7%

Weighted-average assumptions used to determine pension obligation at end of year

Discount rate	**3.6%**	3.2%
Rate of compensation increase	**2.1%**	2.5%

Analysis of defined benefit obligation (DBO)

DBO arising from plans that are wholly or partly funded	**(8 112)**	(12 983)
DBO arising from plans that are unfunded	**(7 369)**	(7 503)
Total DBO	**(15 481)**	(20 486)

Weighted-average investment profile plan assets at end of year [1)]	Target allocation	**2012**	2011
Asset category			
Equity securities	21-29%	**27%**	27%
Debt securities	30-46%	**36%**	38%
Real estate	25%	**23%**	21%
Other	8-14%	**14%**	14%
Total		**100%**	100%

1) Property used by Hydro represents 20 percent of total plan assets at the end of 2012 and 2011.

Management of plan assets must comply with applicable laws and regulations in the countries where Hydro provides funded defined benefit plans. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Based on the portfolio of plan assets at the beginning of year the expected rate of return on plan assets is determined to be up to one and a half percentage points above the yield on a portfolio of long-term high-quality debt instruments that receive one of the two highest ratings given by a recognized rating agency.

The defined benefit obligations in Hydro's Norwegian defined benefit plans have been calculated according to the mortality tables known as K2005. New mortality tables, K2013, are expected to become available in near future. Those tables are expected to imply longer expected life, in particular for younger employees.

In Norway, Hydro participates in a pension plan that entitles the majority of its Norwegian employees life-long benefits in addition to other plans. 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 a proportional 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.

Social security tax imposed on pensions has been recognized and accrued for where applicable, together with social security tax imposed on other personnel benefits, and has not been treated as pensions.

Other retirement benefits

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. Related net periodic post retirement cost was NOK 0.3 million in 2012. The post retirement liability as of December 31, 2012 was NOK 46 million and NOK 73 million in 2011.

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, 2012 and December 31, 2011:

Amounts in NOK million	**Assets 2012**	**Liabilities 2012**	Assets 2011	Liabilities 2011
Inventory valuation	**163**	**(294)**	166	(355)
Accrued expenses	**453**	**(311)**	687	(347)
Property, plant and equipment	**3 832**	**(8 423)**	4 104	(9 735)
Other intangible assets	**773**	**(384)**	1 005	(724)
Pensions	**1 596**	**(463)**	1 692	(445)
Derivatives	**281**	**(58)**	485	(50)
Other	**365**	**(1 003)**	579	(807)
Tax loss carryforwards	**2 688**		2 071	
Subtotal	**10 151**	**(10 936)**	10 789	(12 463)
Of which not recognized as tax asset	**(1 732)**		(1 791)	
Gross deferred tax assets (liabilities)	**8 419**	**(10 936)**	8 998	(12 463)

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

At the end of 2012, Hydro had tax loss carryforwards of NOK 7,333 million, primarily in Brazil, Spain, Italy and Australia. Carry forward amounts expire as follows:

Amounts in NOK million	
2013	-
2014	3
2015	50
2016	-
2017	-
After 2017	1 235
Without expiration	6 045
Total tax loss carryforwards	7 333

Note 34 - Shareholders' equity

Share capital

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
December 31, 2010	1 621 163 811	(33 387 070)	1 587 776 741
Treasury shares reissued to employees		847 813	847 813
Shares issued	447 834 465		447 834 465
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

The share capital of Norsk Hydro ASA as of December 31, 2012 and 2011 was NOK 2,271,760,107.04 consisting of 2,068,998,276 ordinary shares at a par value of NOK 1.098 per share.

An extraordinary General Meeting on June 21, 2010 authorized the Board of Directors to issue new shares to Vale Austria Holdings as part of the consideration for the acquisition of Vale Aluminium. At completion of the transaction February 28, 2011 shares representing 22 percent of the outstanding shares of Norsk Hydro ASA were issued to Vale Austria Holdings.

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, 2012 of NOK 1,047 million was comprised of NOK 35 million share capital and NOK 1,013 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 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 2,037,199,618 for the year 2012 and 1,965,039,601 for 2011.

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 2012 and 2011.

Amounts in NOK million	2012	2011
Currency translation differences		
January 1	**(3 972)**	(708)
Currency translation differences during the year	**(8 217)**	(2 408)
Reclassified to Net income on sale of foreign operations	**(18)**	(856)
December 31	**(12 206)**	(3 972)
Unrealized gain (loss) on securities		
January 1	**45**	304
Unrealized gain (loss) on available-for-sale securities	**(57)**	(411)
Reclassified to Net income on sale or impairment of available-for-sale securities	**(23)**	-
Tax benefit (expense)	**31**	151
December 31	**(4)**	45
Cash flow hedges - See note 41 Derivative instruments and hedge accounting		
January 1	**74**	15
Period gain (loss) recognized in Other comprehensive income	**(185)**	185
Reclassification of hedging gain (loss) to Net income	**(5)**	(107)
Tax benefit (expense)	**52**	(20)
December 31	**(63)**	74
Other components of equity in equity accounted investments		
January 1	**(459)**	(170)
Period gain (loss) recognized in Other comprehensive income	**(32)**	(291)
Reclassified to Net income	**(16)**	2
December 31	**(506)**	(459)
Total other components of equity attributable to Hydro shareholders as of December 31	**(11 374)**	(3 856)
Total other components of equity attributable to minority interests as of December 31	**(1 406)**	(456)

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 2012 net cash provided by 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. In 2012 Hydro issued a NOK 1.5 billion seven year bond in the Norwegian capital market to extend the maturity profile of its funding base.

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 Adjusted 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 after Hydro's guarantee of Qatalum debt was terminated in 2012, the adjustments are considered relevant as the debt and cash flow level in the equity accounted investments affect Hydro's overall financial risk profile.

Adjusted net interest-bearing debt, Adjusted equity 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	**2012**	2011
Cash and cash equivalents	**7 034**	8 365
Short-term investments	**4 343**	1 780
Bank loans and other interest-bearing short-term debt	**(5 956)**	(4 248)
Long-term debt	**(3 674)**	(4 190)
Net interest-bearing debt	**1 747**	1 708
Cash and cash equivalents and short-term investments in captive insurance company [1)]	**(1 275)**	(1 329)
Net pension obligation at fair value, net of expected income tax benefit [2)]	**(4 337)**	(6 916)
Operating lease commitments, net of expected income tax benefit [3)]	**(1 915)**	(3 102)
Short and long-term provisions net of expected income tax benefit, and other liabilites [4)]	**(2 489)**	(2 867)
Adjusted net interest-bearing debt excluding equity accounted investments (EAI)	**(8 269)**	(12 507)
Net interest-bearing debt in EAI [5)]	**(6 077)**	(7 388)
Adjusted net interest-bearing debt including EAI	**(14 346)**	(19 895)
Total equity	**73 843**	85 168
Net pension liability (asset) not recognized	**2 020**	(871)
Expected income tax liability (benefit)	**(606)**	261
Adjusted equity	**75 257**	84 558
Adjusted net interest-bearing debt including EAI / Adjusted equity	**0.19**	0.24
Adjusted funds from operations / Adjusted net interest-bearing debt including EAI	**0.39**	0.42

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) Net pension liability at fair value is the total of both the recognized and unrecognized pension liability. The expected income tax benefit related to the net pension liability is defined as the total of the net deferred tax asset related to pensions as of December 31 and 30 percent of the unrecognized net pension liability as of December 31 and is NOK 527 million and NOK 1 508 million, respectively, for 2012 and 2011. The figure also includes the long-term provision for postretirement medical benefits of NOK 46 million, net of an estimated 30 percent expected tax benefit.

3) Operating lease commitments are discounted using a rate of 2.8 percent and 3.4 percent for 2012 and 2011, respectively. The expected tax benefit on operating lease commitments is estimated at 30 percent.

4) Consists of Hydro's short and long-term provisions related to 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.

5) 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.

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 2012 the Board of Directors has proposed a dividend of NOK 0.75 per share to be paid in May 2013. The Annual General Meeting, scheduled to be held May 8, 2013, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 1,528 million. In accordance with IFRS, the fiscal year 2012 proposed dividend is not recognized as a liability in the 2012 financial statements.

Dividends declared and paid in 2012 and 2011 for the prior fiscal year, respectively, are as follows:

	Paid in 2012 for fiscal year 2011	Paid in 2011 for fiscal year 2010
Dividend per share paid, NOK	**0.75**	**0.75**
Total dividends paid, NOK million	**1 528**	**1 527**
Date proposed	**February 16, 2012**	**February 16, 2011**
Date approved	**May 8, 2012**	**May 5, 2011**
Dividend payment date	**May 22, 2012**	**May 18, 2011**

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	**2012**	2011
Guarantees related to jointly controlled entities	**55**	7 708
Sales guarantees	**1 623**	3 024
Other guarantees	**83**	98
Total guarantees not recognized	**1 761**	10 830

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. Historically, Hydro has not made any significant indemnification payments under such guarantees and no amount has been accrued in the consolidated financial statements. Hydro estimates that the fair value of guarantees related to sale of companies is immaterial.

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. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position. See note 4 Critical accounting judgment and key sources of estimation uncertainty for additional information.

Hydro has certain joint liabilities under Norwegian statutory regulations following from demergers. Under the Norwegian public limited companies act section 14-11, Norsk Hydro ASA and Statoil ASA are jointly liable for liabilities of Norsk Hydro ASA and Norsk Hydro Produksjon AS accrued before the demerger date of October 1, 2007. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. Similarly, Norsk Hydro ASA and Yara International ASA are jointly liable for liabilities accrued before the demerger date of March 24, 2004 on the same conditions.

In connection with the merger of Hydro's petroleum activities with Statoil, Statoil assumed a share of 70 percent of the liability for any obligations related to activities that on the time of the demerger were no longer a part of Hydro, including among other things environmental obligations related to the former fertilizer and magnesium activities.

Note 39 - Contractual commitments and other commitments for future investments

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.

Amounts in NOK million	2013	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	410	162	572
Additional authorized future investments in property, plant and equipment	718	-	718
Contract commitments for other future investments	5	-	5
Total	1 133	162	1 295

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, 2012 is as follows:

Amounts in NOK million	Bauxite, alumina and aluminium	Energy related	Other	Sales commit-ments
2013	5 026	7 048	862	(10 927)
2014	4 653	5 439	632	(7 708)
2015	3 433	5 359	514	(6 002)
2016	2 970	5 120	354	(3 193)
2017	2 499	4 995	312	(1 755)
Thereafter	28 679	22 153	3 401	(10 042)
Total	47 260	50 114	6 075	(39 627)

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 2013 and 14.9 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 [1)]	Other financial liabilities	Non-financial assets and liabilities	Total
2012							
Assets - current							
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
Assets - non-current							
Investments accounted for using the equity method	-	-	258	-	-	10 037	10 295
Other non-current assets	490	8	957	1 453	-	3 262	6 170
Liabilities - current							
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
Liabilities - non-current							
Long-term debt	-	-	-	-	3 674	-	3 674
Other non-current financial liabilities	702	155	-	-	1 250	-	2 107
2011							
Assets - current							
Cash and cash equivalents	8 365	-	-	-	-	-	8 365
Short-term investments	1 780	-	-	-	-	-	1 780
Accounts receivable	-	-	11 583	-	-	1 634	13 217
Other current financial assets	666	-	-	-	-	-	666
Assets - non-current							
Investments accounted for using the equity method	-	-	219	-	-	11 223	11 442
Other non-current assets	450	-	1 222	1 587	-	4 090	7 348
Liabilities - current							
Bank loans and other interest-bearing short-term debt	-	-	-	-	4 248	-	4 248
Trade and other payables	-	-	-	-	7 376	4 939	12 316
Other current financial liabilities	779	-	-	-	-	-	779
Liabilities - non-current							
Long-term debt	-	-	-	-	4 190	-	4 190
Other non-current financial liabilities	1 467	-	-	-	1 476	-	2 943

1) 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 [1]
2012							
Income statement line item							
Revenue	(150)	-	-	-	-	-	(150)
Raw material and energy expense	(600)	-	-	-	-	-	(600)
Financial income	(56)	-	-	(75) [2]	-	-	(131)
Financial expense	27	-	-	-	-	-	27
Gain/loss directly in Other comprehensive income							
Recognized directly in Other comprehensive income (before tax)				56			
Removed from Other components of equity and recognized in the income statement				23			
2011							
Income statement line item							
Revenue	(752)	(102)	-	-	-	-	(854)
Raw material and energy expense	(277)	-	-	-	-	-	(277)
Financial income	43	-	-	13 [2]	-	-	56
Financial expense	18	-	-	-	-	-	18
Gain/loss directly in Other comprehensive income							
Recognized directly in Other comprehensive income (before tax)				411			
Removed from Other components of equity and recognized in the income statement				-			

1) Amount indicates the total gains and losses to financial instruments for each specific income statement line item.
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	2012	Level 1	Level 2	Level 3	2011	Level 1	Level 2	Level 3
Assets								
Commodity derivatives	821	172	121	528	1 067	556	124	387
Currency derivatives	-	-	-	-	49	-	49	-
Cash flow hedges	14	-	14	-	-	-	-	-
Securities held for trading	1 253	429	815	9	1 301	425	855	22
Available for sale financial assets	918	-	-	918	1 052	-	-	1 052
Total	3 006	601	950	1 455	3 469	981	1 028	1 461
Liabilities								
Commodity derivatives	(1 118)	(77)	(44)	(997)	(2 224)	(337)	(123)	(1 764)
Currency derivatives	-	-	-	-	(22)	-	(22)	-
Cash flow hedges	(205)	-	-	(205)	-	-	-	-
Total	(1 323)	(77)	(44)	(1 202)	(2 246)	(337)	(145)	(1 764)

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

	Commodity derivatives		Investments	
Amounts in NOK million	Assets	Liabilities	Securities held for trading	Available for sale financial assets
December 31, 2010	156	(2 197)	25	1 509
Total gains (losses)				
in income statement	(206)	202	(7)	(13)
in Other comprehensive income	-	-	-	(411)
Acquisition through business combination	482	-	-	-
Purchases	-	-	7	1
Issues	-	(8)	-	-
Settlements	(37)	240	(2)	-
Currency translation difference	(8)	-	-	(34)
December 31, 2011	387	(1 764)	22	1 052
Total gains (losses)				
in income statement	239	555	(11)	(22)
in Other comprehensive income	-	-	-	(56)
Purchases	-	-	-	2
Issues	-	(10)	-	-
Settlements	(39)	213	(2)	(11)
Currency translation difference	(59)	8	-	(45)
December 31, 2012	528	(997)	9	918
Total gains (losses) for the period	239	555	(11)	(22)
Total gains (losses) for the period included in the income statement for assets held at the end of the reporting period	200	768	(11)	1

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. Losses relating to available for sale assets 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. 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:

	Gain (loss) from 10 percent increase in				Gain (loss) from 10 percent decrease in			
Amounts in NOK million	USD	Aluminium	Other commodity	Interest rates	USD	Aluminium	Other commodity	Interest rates
Commodity derivatives	(305)	111	(176)	(40)	305	(38)	176	45
Available for sale financial assets	232	213	-	(33)	(229)	(213)	-	33

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, 2012 and December 31, 2011. 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	**2012**	2011
Assets		
Electricity contracts	**82**	127
Aluminium futures, forwards and options	**739**	940
Total	**821**	1 067
Liabilities		
Electricity contracts	**(38)**	(77)
Coal forwards	**(1 041)**	(1 803)
Aluminium futures, forwards and options	**88**	(474)
Other	**(127)**	129
Total	**(1 118)**	(2 224)

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 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 134 million were sold forward in 2012. Of these forward instruments, USD 35 million mature in 2013 and USD 99 million in 2014, at an average rate of 2.21 and 2.32 BRL/USD for 2013 and 2014 respectively.

In anticipation of the Vale transaction, Hydro entered into forward and option instruments in 2010 relating to sales of alumina and aluminium to be produced in the Vale Aluminium entities Alunorte and Albras acquired February 28, 2011. Hedge accounting was applied for these instruments from July 1, 2011. At the end of 2011, this cash flow hedge program had expired.

Ineffectiveness amounting to NOK 5 million was recognized in the income statement in 2012. No ineffectiveness was recognized in 2011 in connection with cash flow hedges.

The table below gives aggregated numbers related to the cash flow hedges for the period 2011 to 2012.

	2013	**2012**	2011
Expected to be reclassified to the income statement during the year (NOK million)	(25)	**5**	(54)
Reclassified to the income statement from Other components of equity (NOK million) [1)]		**3**	77

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

As of December 31, 2012 an asset of NOK 14 million and a liability of NOK 205 million were recognized on the balance sheet as fair value of hedging instruments. No such hedging instruments were recognized as of December 31, 2011.

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 2012 and 2011, 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/EEX (European Energy Exchange) respectively. The fair value of other commodity over-the-counter contracts and swaps is based on quoted market prices, estimates obtained from brokers and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recognized at fair value in accordance with IAS 39, such fair market values are based on quoted forward prices in the market and assumptions of forward prices and margins where market prices are not available. Hydro takes credit-spread into consideration when valuating positions when necessary.

For further information on fair values, see note 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	**2012**	2011
Cash and cash equivalents	**7 034**	8 365
Bank overdraft	**(1)**	(21)
Cash, cash equivalents and bank overdraft	**7 033**	8 344

Cash disbursements and receipts included in cash from operations

Amounts in NOK million	**2012**	2011
Income taxes paid	**1 786**	1 560
Interest paid	**302**	300
Interest received	**286**	256
Other dividends received	**12**	7

Note 43 - Auditor remuneration

KPMG AS is the Group auditor of Norsk Hydro ASA.

The following table shows fees to KPMG for 2012 and 2011. For all categories the reported fee is the recognized expense for the year. Fees to KPMG for 2011 include fee related to the share issues, recognized directly in equity.

Amounts in NOK million	Audit	Audit related	Other services	Tax related	Total
2012					
Norway	10	-	1	-	12
Outside Norway	18	-	-	-	18
Total	27	1	1	-	30
2011					
Norway	10	1	1	-	12
Outside Norway	14	1	-	-	15
Total	24	2	1	-	28

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 2012 for the chairperson of the board, deputy chairperson and directors are NOK 550,000, NOK 345,000 and NOK 300,000, respectively, unchanged from the year before. The chairperson of the audit committee and the chairperson of the compensation committee receive an additional NOK 175,000 (unchanged from 2011) and NOK 100,000 (2011: NOK 31,000) annually in fees, respectively, and audit and compensation committee members receive NOK 113,500 (unchanged from 2011) and NOK 75,000 (2011: NOK 26,000) annually, respectively, for their participation on these committees.

Total board fees and individual board member fees for 2012 ans 2011, and outstanding loans and board member share ownership as of December 31, 2012 and 2011, are presented in the tables below.

Board of Directors' fees

Amounts in NOK thousand	**2012**	2011
Fees and other remuneration paid to board members during the year	**4 281**	3 824
Fees paid in prior year for service rendered in current year	**9**	24
Fees paid during the year for service rendered in other years	**-**	(16)
Total fees for board services provided to Hydro during the year	**4 290**	3 832
Fees and other remuneration - normal board activities	**3 450**	3 245
Fees - compensation committee	**325**	109
Fees - audit committee	**516**	478
Total fees for board services provided to Hydro during the year	**4 290**	3 832

	Board fees [1]		Outstanding loans [1) 2)]		Number of shares [3)]	
Board member	**2012**	2011	**2012**	2011	**2012**	2011
Terje Vareberg [4)]	**650**	581	**-**	-	**18 391**	18 391
Inge K. Hansen [5)]	**486**	475	**-**	-	**12 000**	12 000
Finn Jebsen [6)]	**375**	326	**-**	-	**53 406**	53 406
Eva Persson [7)]	**414**	389	**-**	-	**-**	-
Liv Monica Stubholt [8)]	**375**	326	**-**	-	**-**	-
Dag Mejdell [9)]	**203**	-	**-**	-	**13 400**	-
Pedro Rodrigues [10)]	**75**	-	**-**	-	**-**	-
Victoire de Margerie [11)]	**75**	-	**-**	-	**-**	-
Billy Fredagsvik [12) 13)]	**376**	338	**55**	96	**2 459**	2 159
Sten Roar Martinsen [12) 14)]	**375**	326	**-**	-	**3 515**	3 215
Ove Ellefsen [12) 15)]	**328**	175	**-**	-	**2 844**	2 544
Bente Rathe [16)]	**349**	459	**-**	-	**29 000**	29 000
Tito Martins [17)]	**200**	250	**-**	-	**-**	-
Jørn B. Lilleby [12) 18)]	**-**	172		33		2 074
Heidi M. Petersen [19)]	**-**	7				
Total	**4 281**	3 824	**55**	129	**135 015**	122 789

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, 2012 and 2011 for board members as of December 31, 2012 and 2011; otherwise loans are as of the date the individual stepped down from the Board of Directors. For 2012, the loan to Billy Fredagsvik has an interest rate of 3.9 percent and a repayment period of 6 years. For 2011, the loans to Billy Fredagsvik had an interest rate of 3.9-7.25 percent and a repayment period of 1-7 years. The loan to Jørn Lilleby had an interest rate of 3.9 percent and a repayment period of 2 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, 2012 and 2011 for board members as of December 31, 2012 and 2011; 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/former 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 as of October 1, 2011, 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 as of February 28, 2011, until August 13, 2012.

18) Member of the board and member of the board audit committee until May 13, 2011.

19) Member of the board and member of the board compensation committee in 2010.

Corporate Assembly

Corporate Assembly members owned 61,524 shares as of December 31, 2012. 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 398 thousand as of December 31, 2012. The interest rate on these loans is between 3.90 and 7.25 percent and the repayment period is between one and 13 years.

Note 45 - Related party information

As of December 31, 2012, 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 (2011: 34.8 percent). Folketrygdfondetheld 4.0 percent (2011: 4.3 percent). There are no preferential voting rights associated with the shares held by the Norwegian State. Hydro has concluded that the Norwegian state's shareholding represents significant interest in Hydro, and that the State thus is a related party.

As of December 31, 2012, Vale Austria Holdings GmbH, a wholly owned subsidiary of Vale S.A. owned 22.0 percent of the outstanding shares in Norsk Hydro ASA (2011:22.0 percent). The shares were issued as consideration for Hydro's acquisition of Vale Aluminium in 2011. Hydro has concluded that the Vale's shareholding represents significant influence in Hydro, and that Vale thus is a related party.

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 service and supply arrangements for the acquired entities with Vale S.A and its subsidiaries exists. 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 [1)]. 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 and has a remaining life of around 8 years. Hydro has paid a total rental of NOK 195 million and NOK 192 million for 2012 and 2011, respectively. In addition, Hydro is involved with pension trusts in Great Britain and some other countries. There are no similar arrangements with those trusts.

The members of Hydro's board of directors during 2012 and 2011 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, state ownership

Financial statements Norsk Hydro ASA

Income statements

Amounts in NOK million	Notes	2012	2011
Revenue		**401**	311
Gain (loss) on sale of subsidiaries and associates, net		**(3)**	(8)
Total revenue and income		**398**	303
Employee benefit expense	2, 3	**370**	341
Depreciation and amortization expense	4, 5	**27**	25
Impairment of non-current assets	5	**5**	21
Other		**393**	280
Total operating expenses		**795**	668
Operating loss		**(397)**	(365)
Financial income, net	6	**121**	3 750
Income (loss) before tax		**(276)**	3 386
Income taxes	7	**(48)**	(773)
Net income		**(324)**	2 613
Appropriation of net income and equity transfers			
Dividend proposed		**(1 528)**	(1 527)
Retained earnings		**1 852**	(1 086)
Total appropriation		**324**	(2 613)

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

Balance sheets

Amounts in NOK million, December 31	Notes	2012	2011
Assets			
Deferred tax asset	7	**95**	**-**
Other intangible assets	5	**46**	47
Intangible assets		**141**	47
Property, plant and equipment	4	**185**	191
Shares in subsidiaries	8	**56 672**	56 695
Intercompany receivables		**21 834**	23 040
Prepaid pension, investments and other non-current assets	2, 10	**2 609**	2 579
Total financial non-current assets		**81 115**	82 314
Intercompany receivables		**5 010**	6 974
Prepaid expenses and other current assets		**151**	163
Short-term investments		**3 050**	-
Cash and cash equivalents		**5 344**	6 322
Total current assets		**13 555**	13 459
Total assets		**94 995**	96 011
Equity and liabilities			
Paid-in capital			
Share capital	13	**2 272**	2 272
Treasury shares	13	**(35)**	(36)
Paid-in premium	13	**28 987**	28 987
Other paid-in capital	13	**69**	69
Retained earnings			
Retained earnings	13	**27 177**	29 030
Treasury shares	13	**(1 013)**	(1 048)
Equity	13	**57 458**	59 274
Long-term provisions	2	**2 347**	2 420
Long-term debt	12	**2 993**	2 589
Intercompany payables		**5 346**	5 700
Other long-term liabilities		**8 338**	8 288
Bank loans and other interest-bearing short-term debt		**1 301**	590
Dividends payable		**1 528**	1 527
Intercompany payables		**22 741**	22 362
Other current liabilities	7	**1 281**	1 549
Total current liabilities		**26 852**	26 029
Total equity and liabilities		**94 995**	96 011

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

Statements of cash flows

Amounts in NOK million	**2012**	2011
Net income (loss)	**(324)**	2 613
Depreciation, amortization and impairment	**32**	46
Loss (gain) on sale of non-current assets, net	**2**	(16)
Changes in receivables and payables, and other items	**1 724**	(297)
Net cash provided by operating activities	**1 434**	2 346
Investments in subsidiaries	**-**	(26 354)
Sales of subsidiaries	**-**	20 114
Net sales (purchases) of other investments	**(3 073)**	31
Net cash used in investing activities	**(3 073)**	(6 209)
Dividends paid	**(1 528)**	(1 527)
Proceeds from shares issued	**25**	26
Other financing activities, net	**2 273**	2 220
Net cash provided by financing activities	**770**	719
Foreign currency effects on cash	**(109)**	(90)
Net decrease in cash and cash equivalents	**(978)**	(3 234)
Cash and cash equivalents at beginning of year	**6 322**	9 556
Cash and cash equivalents at end of year	**5 344**	6 322

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.

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_2 emission allowances at cost as an intangible asset. The emission rights are not amortized, impairment testing is done on an annual basis. Sale of CO_2 emission rights is recognized at the time of sale at the transaction price.

Leased assets
Leases are assessed under NRS 14 Leasing. Lease arrangements that transfer the majority of risks and control to Hydro is considered financial lease, and recognized as asset and liability. Payments under other leases and renatal arrangments 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 the 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 expense represents the change in deferred tax assets and liability balances during the year. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective.

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.

Note 2 - Employee retirement plans
Norsk Hydro ASA is affiliated with the Hydro Group's Norwegian pension plans. The defined benefit plans are administered by Norsk Hydro's independent pension trust. The defined benefit plans are closed. The defined contribution plans are administered by the external Norwegian pension provider Storebrand. Norsk Hydro ASA's defined benefit plans covered 4,733 participants as of December 31, 2012 and 5,001 participants as of December 31, 2011, while the defined contribution plans covered 165 participants as of December 31, 2012 and 179 participants as of December 31, 2011. The plans comply with minimum requirements for pension plans in Norway.

The defined benefit obligations in Norsk Hydro ASA's defined benefit plans have been calculated according to the mortality tables known as K2005. New mortality tables, K2013, are expected to become available in near future. Those tables are expected to imply longer expected life, in particular for younger employees.

Norsk Hydro ASA participates in a pension plan that entitles its employees life-long benefits in addition to other plans, starting at the employees' choice between the age of 62 and 75 years. The benefits are financed through a pooled arrangement by private sector employers ("avtalefestet pensjon, AFP") where also The Norwegian state contributes. The plan, which came into effect from January 1, 2011, is a defined benefit plan with limited funding and where plan assets are not segregated. The information required to calculate a proportional 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 yearly premiums have increased since inception and are anticipated to increase further in order to fulfil the regulatory funding requirement. The employer contributions are included in Multiemployer plans.

Net periodic pension cost

Amounts in NOK million	**2012**	2011
Defined benefit plans		
Benefits earned during the year	**99**	89
Interest cost on prior period benefit obligation	**155**	211
Expected return on plan assets	**(206)**	(278)
Past service cost	**4**	6
Net periodic pension cost	**52**	27
Defined contribution plans	**7**	7
Multiemployer plans	**4**	6
Termination benefits and other	**11**	20
Total net periodic pension cost	**74**	61

Change in defined benefit obligation (DBO)

Amounts in NOK million	**2012**	2011
Defined benefit obligation at beginning of year	**(6 400)**	(5 778)
Benefits earned during the year	**(99)**	(89)
Interest cost on prior period benefit obligation	**(155)**	(211)
Actuarial gain (loss)	**1 331**	(627)
Plan amendments	**-**	(1)
Benefits paid	**330**	324
Curtailment/settlement gain (loss)	**157**	-
Special termination benefits	**(14)**	(18)
Defined benefit obligation at end of year	**(4 850)**	(6 400)

Change in pension plan assets

Amounts in NOK million	**2012**	2011
Fair value of plan assets at beginning of year	**5 370**	5 499
Actual return on plan assets	**375**	120
Company contributions	**55**	-
Benefits paid	**(245)**	(249)
Settlements	**(83)**	-
Fair value of plan assets at end of year	**5 472**	5 370

Status of pension plans reconciled to balance sheet

Amounts in NOK million	**2012**	2011
Defined benefit plans		
Funded status of the plans at end of year	**622**	(1 030)
Unrecognized net (gain) loss	**(1 006)**	444
Unrecognized past service cost	**3**	6
Net accrued pension recognized	**(382)**	(580)
Termination benefits and other	**(31)**	(56)
Total net accrued pension recognized	**(413)**	(636)
Amounts recognized in the balance sheet consist of		
Prepaid pension	**1 609**	1 466
Accrued pension liabilities	**(2 022)**	(2 101)
Net amount recognized	**(413)**	(636)

Assumptions used to determine net periodic pension cost

	2012	2011
Discount rate	**2.50%**	3.75%
Expected return on plan assets	**4.00%**	5.25%
Expected salary increase	**3.25%**	3.75%
Expected pension increase	**1.75%**	2.00%

Assumptions used to determine pension obligation at end of year

	2012	2011
Discount rate	**3.75%**	2.50%
Expected salary increase	**3.00%**	3.25%
Expected pension increase	**1.00%**	1.75%

Investment profile plan assets at end of year

	2012	2011
Asset category		
Equity securities	**27%**	26%
Debt securities	**36%**	34%
Real estate	**23%**	24%
Other	**14%**	17%
Total	**100%**	100%

See note 32 Employee retirement plans in notes to the consolidated financial statements for further information.

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. For 2012, audit fees and fees for other services were NOK 6 million and NOK 1 million, respectively, the same as in 2011. Audit related fees for 2011 were NOK 1 million.

The average number of employees in Norsk Hydro ASA was 510 in 2012 as compared to 571 in 2011. As of year end 2012 and 2011 Norsk Hydro ASA employed 436 and 549 employees, respectively.

Total loans given by Norsk Hydro ASA to Norwegian employees as of December 31, 2012 were NOK 170 million. Loans to employees consist of NOK 110 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of December 31, 2012 related to the employee share purchase plan was NOK 6 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	**2012**	2011
Payroll and related costs:		
Salaries	**685**	677
Social security costs	**111**	114
Social benefits	**2**	(4)
Net periodic pension cost (note 2)	**74**	61
Internal invoicing of payroll related costs	**(502)**	(506)
Total	**370**	341

Note 4 - Property, plant and equipment

Operating lease expense amounted to NOK 201 million in 2012 and NOK 197 million in 2011. The company has the following future operating lease commitments under non-cancellable leases: 2013: NOK 195 million, 2014: NOK 195 million, 2015: NOK 195 million, 2016: NOK 195 million, 2017: NOK 195 million and thereafter: NOK 618 million.

Amounts in NOK million	Land	Buildings	Machinery, etc	Plant under construction	Total
Cost December 31, 2011	6	98	219	4	327
Additions at cost	-	6	8	3	16
Retirements	-	-	(3)	-	(3)
Transfers	-	-	6	(6)	-
Accumulated depreciation December 31, 2012	-	(42)	(113)	-	(155)
Carrying value December 31, 2012	6	62	116	1	185
Depreciation in 2012	-	(2)	(18)	-	(20)

Note 5 - Intangible assets

Amounts in NOK million	Cost	Accumulated amortization	Carrying value
Balance December 31, 2011	79	(32)	47
Additions at cost	11		11
Amortization for the year		(7)	(7)
Impairment loss		(5)	(5)
Balance December 31, 2012	90	(44)	46

Note 6 - Financial income and expense

Amounts in NOK million	**2012**	2011
Dividends from subsidiaries	**4**	1 926
Interest from group companies	**1 025**	1 912
Other interest income	**138**	71
Interest paid to group companies	**(445)**	(908)
Other interest expense	**(143)**	(158)
Net foreign exchange gain (loss)	**(447)**	630
Other, net	**(11)**	278
Financial income, net	**121**	3 750

Note 7 - Income taxes

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

	Temporary differences Tax effect	
Amounts in NOK million	**2012**	2011
Short-term items	**37**	1
Pensions	**116**	178
Other long-term items	**(58)**	(182)
Deferred tax assets (liabilities)	**95**	(3)

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 nominal statutory tax rate to effective tax rate

Amounts in NOK million	**2012**	2011
Income (loss) before taxes	**(276)**	3 386
Expected income taxes at statutory tax rate	**(77)**	948
Permanent differences and other, net	**125**	(175)
Income taxes	**48**	773
Effective tax rate	**(17.27%)**	22.82%
Components of income tax		
Current income tax	**169**	504
Change in deferred tax	**(122)**	269
Income tax	**48**	773

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

Taxes payable as of December 31, 2012 and 2011 were NOK 778 million and NOK 1,100 million, respectively.

Note 8 - Shares in subsidiaries

Company name	Currency	Percentage of shares owned by Norsk Hydro ASA	Total share capital of the company (1,000's)	Book value (NOK million)
Hydro Aluminium AS	NOK	100.00	14 472 252	50 826
Norsk Hydro Produksjon AS	NOK	100.00	868 560	5 530
Hydro Aluminium Deutschland GmbH [1)]	EUR	25.04	73 894	92
Grenland Industriutvikling AS	NOK	100.00	26 750	88
Herøya Industripark AS	NOK	100.00	9 680	62
Norsk Hydro Plastic Pipe AS	NOK	100.00	10 000	39
Industriforsikring AS	NOK	100.00	20 000	20
Herøya Nett AS	NOK	100.00	1 760	11
Hydro Kapitalforvaltning AS	NOK	100.00	2 500	4
Total				56 672

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 Grenland Industriutvikling AS has been written down by NOK 23 million in 2012. Part of the carrying value of shares in Norsk Hydro Produksjon AS has been allocated to Herøya Industripark AS and Herøya Nett AS following a demerger of Norsk Hydro Produksjon AS.

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 and Vale S.A are related parties to Norsk Hydro ASA. Both shareholdings represent significant influence in Norsk Hydro ASA.

Norsk Hydro ASA operates the cash pooling arrangements in Hydro. Further, Norsk Hydro ASA extends loans to subsidiaries, associates and jointly controlled entities at terms and conditions reflecting prevailing 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 in 2012 was NOK 223 million.

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	**2012**	2011
Securities	**536**	536
Prepaid pension	**1 608**	1 466
Associates and jointly controlled entites	**13**	22
Other non-current assets	**452**	557
Total prepaid pension, investments and other non-current assets	**2 609**	2 579

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	**2012**	2011
Guarantees related to jointly controlled entities	**55**	7 696
Sales guarantees	**-**	600
Commercial guarantees	**5 222**	5 022
Total guarantees not recognized	**5 277**	13 318

Note 12 - Long-term debt

As of December 31, 2012, long-term debt amounted to NOK 2,993 million, of which NOK 2,074 million fall due after 2017. As of December 31, 2011, long-term debt amounted to NOK 2,589 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, 2012 was NOK 2,271,760,107.04 consisting of 2,068,998,276 ordinary shares at NOK 1.098 per share. As of December 31, 2012 Norsk Hydro ASA had purchased 31,430,114 treasury shares at a cost of NOK 1,047 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 2,037,568,162 shares outstanding as of December 31, 2012, according to information in the Norwegian securities' registry system (Verdipapirsentralen).

Name	Number of shares
The Ministry of Trade and Industry of Norway	708 865 253
Vale Austria Holdings GmbH	447 834 465
Folketrygdfondet	80 454 494
The Northern Trust Co.[1)]	55 120 445
State Street Bank and Trust Co[1)]	50 748 560
Clearstream Banking S.A.[1)]	44 749 031
Rasmussengruppen AS	32 377 000

1) Nominee accounts.

Changes in equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
December 31, 2011	31 292	27 981	59 274
Net income		(324)	(324)
Dividend proposed		(1 528)	(1 528)
Treasury shares	1	36	37
December 31, 2012	31 293	26 164	57 458

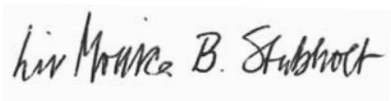
Responsibility Statement

We confirm to the best of our knowledge that the consolidated financial statements for 2012 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 2012 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 12, 2013

Terje Vareberg
Chair

Inge K. Hansen
Deputy chair



Liv Monica Bargem Stubholt
Board member

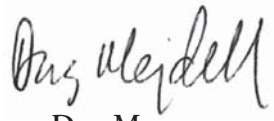
Ove Ellefsen
Board member

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 2012, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the balance sheet as at 31 December 2012, and the income statement and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the separate financial statements

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norsk Hydro ASA as at 31 December 2012, 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 2012, 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 statement on Corporate Governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statement on Corporate Governance concerning the financial statements, and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 12 March 2013
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 2012 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2012 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 2012 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, March 12, 2013
Siri Teigum

Appendix

Terms and definitions

ADRs	American Depositary Receipts, evidencing a specified number of ADSs
ADSs	American Depositary Shares, each ADS representing one deposited ordinary share
AluNorf	Aluminium Norf GmbH
Articles of Association	The articles of association of the Company, as amended and currently in effect
Audit Committee	The audit committee of the Company's Board of Directors
BAT	"Best Available Techniques" for pollution prevention and control
Code	The U.S. Internal Revenue Code of 1986, as amended
Company	Norsk Hydro ASA, a Norwegian public company limited by shares, or Norsk Hydro ASA and its consolidated subsidiaries, as the context requires
Compensation Committee	The compensation committee of the Company's Board of Directors
Consolidated Financial Statements	The consolidated financial statements and notes included in the Company's annual report to shareholders
Corporate Assembly	The corporate assembly, a body contemplated by Norwegian companies' law, with responsibility, among other things, for the election of the members of the Company's Board of Directors and nomination of the external auditor
Corporate Management Board	The corporate management board established by the Company's President and Chief Executive Officer to assist him in discharging his responsibilities
CRU	CRU International Limited
Disclosure Committee	The disclosure committee of the Company, comprised of members of senior management, which is responsible for reviewing financial and related information before it is made public
EEA	European Economic Area
EEA Agreement	The European Economic Area Agreement
EFTA	European Free Trade Association
EU	European Union
HSE	Health, safety and environment
Hydro	Norsk Hydro ASA and its consolidated subsidiaries
Hydro Aluminium	The aluminium business of Hydro, comprising the sub-segments Metals, Rolled Products, and Extrusion and Automotive
kWh	Kilowatt hour
LME	London Metal Exchange
mm	Millimeter
NOK	Norwegian kroner
Nomination Committee	The nomination committee provided for in the Company's Articles of Association and operating under a charter established by the shareholders' representatives in the Corporate Assembly
OSE	Oslo Stock Exchange
tonne, mt	One metric tonne (approximately 1,000 kilograms or 2,205 pounds)
TWh	Terawatt hour (one billion kilowatt hours)
US GAAP	Generally accepted accounting principles in the United States
VAW	VAW Aluminium AG
VPS or VPS System	The Norwegian Central Securities Depository, Verdipapirsentralen
WTO	World Trade Organization
Yara	Yara International ASA

Cautionary note in relation to certain forward-looking statements

Certain statements included within this Annual Report contain forward-looking information, including, without limitation, those relating to (a) forecasts, projections and estimates, including about overall economic developments, (b) various expectations about future developments in Hydro's markets, particularly prices, supply and demand and competition, (c) statements of management's plans, objectives and strategies for Hydro, such as planned expansions, integration of acquired entities, investments, financing or other projects, (d) targeted production volumes and costs, capacities or rates, start-up costs, cost reductions and profit objectives, (e) results of operations, (f) margins, (g) growth rates, (h) risk management, as well as (i) statements preceded by "expected", "scheduled", "targeted", "planned", "proposed", "intended", "will" or similar statements.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, these forward-looking statements are based on a number of assumptions and forecasts that, by their nature, involve risk and uncertainty. Various factors could cause our actual results to differ materially from those projected in a forward-looking statement or affect the extent to which a particular projection is realized. Factors that could cause these differences include, but are not limited to: the global supply and demand for aluminium and aluminium products, including as a result of changes in the economic climate; our continued ability to reposition and restructure our upstream and downstream aluminium business; changes in availability and cost of energy and raw materials; our ability to execute major projects and successfully integrate acquired businesses; our credit ratings and continued ability to access financing and capital at a reasonable cost; rates of inflation and industrial production; changes in the relative value of currencies and the value of commodity contracts; trends in Hydro's key markets and competition; and legislative, regulatory and political factors. For a description of factors that could cause our results to differ materially from those expressed or implied by such statements, please refer to the risk factors specified under "Risk review - Risk factors" earlier in this Annual Report.

No assurance can be given that such expectations will prove to have been correct. Hydro disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Hydro is a global supplier of aluminium with activities throughout the value chain, from bauxite extraction to the production of rolled and extruded aluminium products and building systems. Based in Norway, the company employs 22,000 people in more than 40 countries. Rooted in 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