HYDRO

Financial statements and Board of Directors' report – 2011

Key figures

Amounts in NOK million unless other unit indicated	2011	2010
Revenue	91 444	75 754
Underlying EBIT : (a)		
Bauxite & Alumina	887	633
Primary Metal	2 486	617
Metal Markets	441	321
Rolled Products	673	864
Extruded Products	151	444
Energy	1 883	1 416
Other and eliminations	(389)	(945)
Total	6 133	3 351
Income (loss) from continuing operations	6 749	2 118
Underlying return on average capital employed (RoaCE), percent	6.5%	4.0%
Investments (b)	48 025	6 231
Total assets	132 554	88 788
Share price year-end, NOK	27.74	42.61
Dividend per share, NOK	0.75	0.75
Number of employees, year-end (c)	22 655	18 894
Recordable injuries, per million hours worked	3.8	3.7
Greenhouse gas emissions, million tonnes CO2e (d)	7.3	7.7

Highlights

IMPROVED PERFORMANCE AMID MARKET UNCERTAINTY

Underlying operating results improved in 2011, driven by higher alumina and aluminium prices and higher production volumes. Bauxite & Alumina achieved significant operational improvements throughout the year. Weaker markets in the second half of the year impacted results, in particular for Hydro's downstream business in Europe. Deteriorating market conditions and cost pressure led to write-downs in the fourth quarter. Significant measures have been implemented to reduce costs and improve efficiency throughout Hydro's organization.

WELL POSITIONED

Hydro enters 2012 fully integrated throughout the value chain and well positioned among the leaders in the aluminium industry. Building on its strong position in a world with limited resources, Hydro will be proactive in securing the performance of its existing business and exploiting new opportunities. Prepared for a challenging period ahead, Hydro will take the steps necessary to secure its operating results and sound financial position including a strong emphasis on safety.

(a)

Underlying EBIT
Underlying EBIT increased to NOK 6,133 million compared with NOK 3,351 million in 2010, driven by higher realized alumina and aluminium prices and higher production volumes, mainly due to the Vale acquisition. Underlying results for Hydro's downstream operations were impacted by weaker markets which declined in the second half of 2011.

(b)

Investments
During 2011, Hydro continued to focus on liquidity and sustaining capital expenditures. Except for Vale Aluminium, investments were mainly related to maintenance activities to safeguard our production assets.

(c)

Number of employees
The increase in number of employees from 2010 to 2011 is mainly due to the acquisition of Vale's former aluminium business in Brazil, while restructuring measures elsewhere in the company, especially within Hydro Building Systems, had an opposit effect on the overall level.

(d)

Greenhouse gas emissions
Due to the Vale aluminium acquisition Hydro's climate gas emissions from consolidated activities increased significantly in 2011. However, emissions from the company's smelters – per ton produced – are steadily decreasing. Figures include historical emissions from current operations.

HYDRO'S REPORTING 2011

In addition to this separate document, Hydro's Board of Directors' report is included as an integral part of its "Annual Report – 2011".

The Board of Directors report, together with the Financial Statements and accompanying notes, fulfills our 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 – 2011" is available in PDF-format on our website www.hydro.com/reporting2011 in English. The "Board of Directors' report and Financial Statements – 2011" is also available in PDF-format as a separate document in both English and Norwegian. All parts of the reports can be downloaded and printed in PDF-format, together with additional, supplementary information. Paper copies of the reports can also be ordered on our website.

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Short-term challenges – long-term opportunities: Future proof

Aluminium is an essential building block of modern society and a surprisingly big part of life. Being an industry leader in a sector expecting 70 percent growth in demand within the decade should be a great position for the future. Despite the current economic turbulence, I have never been more certain that we are future proof.

While financially speaking, aluminium has been challenging over the past decade, it may not be because of a lack of confidence, but paradoxically because of an over-confidence in aluminium. An exaggerated optimism has led to over-investment and surplus capacity, weighing down prices and profitability, amplified by weaker demand due to the financial and economic unrest that started in 2008.

Now placed somewhere between crisis and recovery and in a multi-speed global economy, our global businesses are exposed to both flourishing and contracting markets at the same time. China still drives growth, although at a slower rate – and while this aluminium giant is still self-supplied with metal, we can expect increasing imports of bauxite. But with a slower overall global growth rate, a prolonged European debt crisis and a U.S. economy that is far from recovery, there is still plenty of uncertainty looming.

Freedom to act

Given the current uncertainty, we cannot count on the market to lift our profitability, at least not in the short term. We are focusing our efforts on what we ourselves can do to improve, further reinforcing our repositioning measures and performance improvement programs, firmly controlling costs and margins. We are also maintaining our financial robustness, rather than focusing on new capacity investments in a situation of oversupply.

Short-term cash preservation is not the same as having a short and narrow perspective. On the contrary, it is a crucial means to safeguard our long-term freedom to act. It was financial prudence during the financial crisis that enabled us to pursue and close the Vale deal, which would otherwise have been inconceivable.

It is a balancing act to be dimensioned and designed to resist short-term volatility, while at the same time preparing for a future market that eventually will continue to grow.

Still, even the demanding challenges facing us should be regarded more as an opportunity than a liability. It is often when confronted with a need to change that we find new ideas, new solutions, re-think established truths, modernize structures and habits that may be out of date, and shape the company for tomorrow.

Improvement culture

The will to improve should be an integrated part of everyday work. In fact, operational improvements implemented last year helped offset large parts of the negative impact from deteriorating markets during the second half of last year. It is encouraging to see that we are able to transform plans and ambitions into tangible results.

Qatalum reached full production in 2011. The aim now is to stabilize operations in the best quartile of the global industry. Qatalum is already producing above its nameplate capacity.

Within our Brazilian operations, performance has been stabilized at a significantly higher level than the previous year. In the bauxite mine Paragominas, production increased by 23 percent and in the alumina refinery Alunorte by 9 percent.

The Primary Metal improvement program proceeds according to plan for a USD 300 cost reduction per metric ton of aluminium by the end of 2013. Similar programs and reviews with a multitude of actions and measures are ongoing in the other business areas.

Our researchers are determined in their efforts to realize the twin goals boosting productivity and curbing energy consumption. The HAL4e electrolysis cells in Årdal, Norway, are now running at only 12.5 kWh/kilo of produced aluminium. Downstream, our researchers manipulate aluminium at the nano level to generate alloys that have tailor-made properties for its specific use.

It's satisfying to see better results. It's even more satisfying when they result from great accomplishments.

InspirationAL

The philosophy of continuous improvement – performing better today than yesterday, better tomorrow than today – should always inspire us. The will and ability to adapt and change is key to success, and surprisingly often for the mutual benefit of business, people and society.

Economic uncertainty can act as a catalyst for change, as should the climate challenge. The world needs to turn words into action to combat climate change. In this context, developing the solutions the world needs to fight climate change, such as lightweight vehicles, energy-efficient buildings and lower-cost renewable energy production, will be highly appreciated and well rewarded.

As a global aluminium champion we have a responsibility to address the climate challenge, we have the ability to contribute and I am convinced it will be profitable in the long run.

Challenge responsibly

I believe that aluminium, with its versatile range of properties, is part of the solution. And I believe that The Hydro Way of doing things is a healthy approach to survive and prosper even in troubled times. There is a clear connection between performing well in all aspects of everyday operations and in achieving the deserved bottom line results.

I am deeply saddened by the fact that three of our colleagues did not return safely home due to fatal accidents at Hydro plants last year. Zero is the maximum number of fatalities we can accept. Our operations, precautions and ability to avoid high-risk incidents should be so good that accidents like this simply do not happen.

Also, the environmental impact of our operations must be minimized, regarding greenhouse gas emissions (GHG), energy consumption, waste, water and biodiversity. I am pleased that GHG emissions from Hydro’s comparable operations decreased further by 5 percent last year. Following the integration of the Vale aluminium assets and after Qatalum moved into full production, Hydro’s nominal GHG emissions increased. We are committed to continue our determined efforts in technology development and operational improvements to resume our long trend in the right direction.

When it comes to the impact of mining and refinery operations, Hydro has plenty to learn, but I also believe that we have something to contribute. We have become member of the International Council on Mining and Metals (ICMM) to benefit from advice from our peers, to report and to exchange knowledge and best practices. In the communities where we now operate in Brazil, we initiate and take part in important community infrastructure, social and environmental programs.

We enjoy a very good relationship with local unions. I believe that we have something to contribute by taking our “Hydro model” of respect and cooperation with us to Brazil – and I am convinced that the unions have a lot to contribute to Hydro.

Hydro is affiliated with the UN initiative Global Compact, takes part in the World Business Council for Sustainable Development and is included on the Dow Jones Sustainability Indexes and FTSE4Good.

The metal and material of the future

I am still convinced that aluminium is the metal of the future. Aluminium shall not only take part in creating growth and prosperity the next decades, but also be a part of the solution to bringing about growth in a way that respects the limits of nature, people and society and the limited resources that we all depend upon.

Aluminium is an energy bank. The energy is not wasted when turned into aluminium, the energy is stored in the metal, enabling it to be recycled time and again and turned into new products that we need every day. Consequently, 75 percent of all aluminium ever produced is still in use. As millions strive to climb out of poverty and into the global middle-class aluminium both plays a role in enabling infrastructure developments and in saving much of the energy and emissions this otherwise positive development implies. Aluminium is future proof.

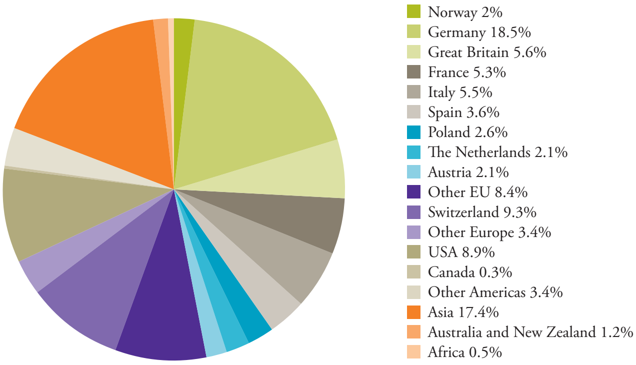
Building a bridge between short-term challenges and long-term opportunities for aluminium is a balancing act and requires determined efforts. We will challenge our minds, talents and efforts to solve the challenges ahead, because the long-term prospects of aluminium are promising and we look forward to take part in shaping that future.

“We have a responsibility to address the climate challenge, we have the ability to contribute and I am convinced it will be profitable in the long run.”

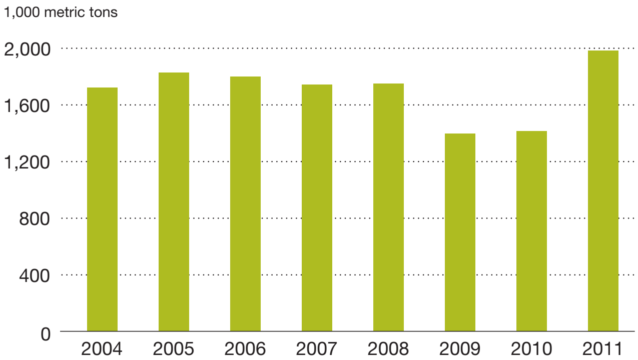
Svein Richard Brandtzæg
President & CEO

Geographical distribution of operating revenues

NOK million 91,444



Primary aluminium production



Our Business

Hydro is a resource rich, fully integrated aluminium company with operations in all major activities along the aluminium industry's value chain.

Our new business area, Bauxite & Alumina, includes 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 2011, we delivered 3.3 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.

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.

Project management competence has been and continues to be crucial to our business. We have a single organization responsible for the execution of all projects, with dedicated teams, defined work processes and supporting systems and procedures.

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
- Our values
- Our talents
- Operating model
- Strategic direction

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 15 for more information about our organization.

Board of Directors' report

Key developments

In 2011, Hydro completed the transformation of its business into a resource rich, fully integrated aluminium company with the integration of the Vale Aluminium operations. With a global business model based on measured performance, the company is well positioned among the leaders in the aluminium industry.

The establishment of our new Bauxite & Alumina business area secures the supply of key raw materials to Hydro's own operations and creates a strong platform for future growth. These assets, including the Paragominas bauxite mine and Alunorte alumina refinery, are technologically advanced, cost-competitive and integrated through a pipeline that delivers bauxite for processing into high-grade alumina. The completion of our new world-class smelter, Qatalum, and the integration of Albras in Brazil, has significantly increased Hydro's electrolysis capacity to 2.4 million metric tons.

Prepared for a challenging period ahead

There has been a significant increase in uncertainty regarding economic developments within certain countries and geographic regions in which Hydro operates. In Europe, the fiscal crisis has escalated resulting in deteriorating economic conditions in several countries and in Southern Europe in particular. Recovery has been weak in the US and growth has slowed in China and other major emerging markets. Cost pressure has increased for the aluminium industry in general. The negative effects have been exacerbated by a decline in LME prices to relatively weak levels. Due to the deteriorating market conditions and cost pressures, Hydro wrote down fixed assets by NOK 1.3 billion in the fourth quarter of 2011.

Hydro has concentrated on maintaining and reinforcing improvements achieved following the previous downturn. The company has a robust financial position and is prepared to meet the challenges ahead. Capital investments have been reduced and Hydro has maintained a strong focus on operating capital. Substantial cost reductions have been achieved throughout the organization.

Responding to market developments toward the end of 2011, Hydro reduced remelt production and strengthened its emphasis on improvement programs and financial discipline. Due to market conditions, the company decided not to restart the remaining 85,000 metric tons (mt) of curtailed capacity at our Sunndal smelter. In January 2012, Hydro also decided to curtail 60,000 mt of production at its Kurri Kurri aluminium smelter which has been negatively impacted by low aluminium prices, increased raw material costs and the strong Australian dollar. No restart of previously curtailed capacity is currently planned.

Due to a continued decline in market demand, Hydro has implemented measures to turn around its Building Systems business targeting cost improvements of EUR 40 million by the end of 2012, compared with 2010. Further production efficiency and cost reduction initiatives have been implemented across the company's downstream operations.

Underlying operating performance

Underlying EBIT increased to NOK 6,133 million compared with NOK 3,351 in 2010. Higher realized alumina and aluminium prices and higher production volumes mainly due to the Vale acquisition had a positive effect on developments for the year. Hydro's new Bauxite & Alumina business achieved significant improvements in operational stability and capacity utilization during 2011. Paragominas, one of the world's largest bauxite mines, achieved record production in 2011. However, underlying results for the new business area were not satisfactory for the full year.

Cost and other improvements in Primary Metal amounted to roughly NOK 1 billion compared to 2009 operating cost levels. This was more than offset, however, by higher prices for key raw materials including power, carbon and alumina. Qatalum reached full capacity in the third quarter of 2011 following a significantly delayed ramp-up due to a power outage in 2010.

Underlying results for Hydro's downstream operations were impacted by weaker markets, in particular for its European extrusion and building systems operations. Underlying EBIT for Hydro's Energy business increased in 2011, mainly due to higher production.

Due to the Vale Aluminium acquisition and Qatalum coming into full production, Hydro's total greenhouse gas emissions increased significantly in 2011. However, emissions from the company's smelters – per mt aluminium produced – are steadily decreasing, and Hydro's greenhouse gas emissions declined by five percent compared to 2010 including the new assets in Brazil on a comparative basis.[1)] Hydro did not achieve its safety target in 2011 and suffered three fatal accidents including two contractors and one employee.

Priorities for 2012

Building on its strong position in a world with limited resources, Hydro will be proactive in securing the performance of the company's existing business and exploiting new opportunities including to:

- Achieve industry leadership in safety performance and renew emphasis on corporate responsibility
- Respond to market developments to secure operating results
- Continuously improve the operations and cost position of bauxite mining and alumina refining
- Further improve the cost position of the smelter portfolio

1) Calculated on a consolidated basis excluding Hydro's 50 percent interest in Qatalum.

- Secure stable production and first-quartile cost position of Qatalum and optimize the commercial value of full production volumes
- Improve returns for downstream operations
- Maintain capital discipline

Hydro will take the steps necessary to secure its operating results and sound financial position in 2012 and safe operations continues to be of paramount importance. Zero tolerance for fatal accidents continues, and Hydro is aiming for a 25 percent reduction in total recordable injuries per million hours worked or a TRI rate of 2.9 for 2012. Following the significant business expansion in 2011, Hydro has revised several important corporate responsibility strategies that will be on the top of the board's agenda for implementation in 2012. These include reducing the company's environmental footprint, helping customers reduce their footprint and improving the environmental qualities of aluminium as a material. Hydro's overall CSR strategy is built upon four pillars: integrity and anti-corruption, community and stakeholder engagement, human rights, and supply chain and product stewardship. Five priorities for Hydro's people strategy include: performance culture, competence management, leadership pipeline, diversity and mobility.

Further improving the capacity utilization and efficiency of the company's new Bauxite & Alumina operations will be a key priority in 2012. Hydro will concentrate on increasing the effectiveness of its production systems, raising productivity and pursuing a more systematic execution and follow-up of maintenance activities. Hydro's aim is to achieve targeted increases in production levels and to significantly enhance the performance within these core activities.

Hydro will continue to emphasize improving the efficiency of its smelter portfolio while constantly addressing the cost challenges facing its Primary Metal business. Hydro's USD 300 per mt cost improvement program is on track, delivering cumulative saving of USD 200 per mt by the end of 2011.

Improving returns for Hydro's downstream operations will be an important issue on the company's agenda in 2012. Key strategies include differentiation through innovation and service as well as continuous cost reduction to secure margins while protecting market shares. Hydro plans to build upon its European extrusion operations and its world-class rolling mills, focusing on the high-end product markets. Strong cost control will be a key objective in general and the company will continue efforts to turn around activities in southern Europe, working towards a leaner organization, and securing significant and lasting reductions in operating costs.

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 secure 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 will be key priorities.

Shaping the future

Hydro is well prepared for the opportunities ahead in an industry with attractive long-term fundamentals. However, the current economic environment represents a significant challenge in obtaining a satisfactory return on capital for the industry as a whole and for Hydro. In order to secure the viability of its operations over time, Hydro intends to focus on initiatives and business opportunities that continually improve its cost position.

Hydro's long alumina equity position places it in a market where we can benefit from mechanisms that will evolve the price of the company's core products to better reflect the cost fundamentals of the industry. Hydro's long-term ambition is to increase its capacity of low-cost alumina, reinforcing its position as a leading global supplier. Potential projects include CAP, an alumina refinery in Barcarena, close to Alunorte, and the possible expansion of the Paragominas mine.

The Qatalum smelter has been developed with the possibility to more than double the plant's annual capacity in the future. There is also a possibility to expand the low-cost Alouette smelter in Canada. Hydro intends to maintain its technological leadership which contributes to lower operating costs, reduced emissions and ensures attractiveness as a partner for world-class projects. Selective growth of the company's downstream operations in emerging markets including Brazil and China will be a priority going forward.

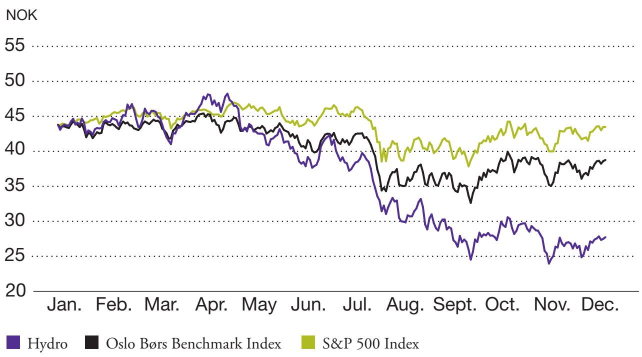
Hydro intends to develop the value of its Norwegian energy assets and to use Hydro's competence to secure competitive energy sources for its global activities. Hydro is committed to maintaining the viability of the company's global smelter portfolio, which is heavily dependent on securing adequate supplies of competitively priced energy. Securing long-term, competitive power sources is of critical importance to sustaining the viability of Hydro's smelter portfolio in Norway. 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.

Investor information

Hydro's share price closed at NOK 27.74 at the end of 2011. The return for 2011 was negative, amounting to NOK 14.87 per share, or 35 percent.

Hydro's board of directors proposes to pay a dividend of NOK 0.75 per share for 2011 reflecting the company's strong com-

Share price development in 2011



mitment to provide a cash return to its shareholders. The dividend reflects our operational performance for 2011 and a strong financial position, and takes into consideration the uncertain market outlook.

Financial and underlying operating results

Financial results for 2011

EBIT for Hydro amounted to NOK 9,827 million compared with NOK 3,184 million in 2010. EBIT included negative effects of NOK 211 million from unrealized gains and losses relating to LME, power, currency and raw material derivative contracts, and metal effects in our Rolled Products business area. In 2010, the corresponding effects amounted to a negative NOK 166 million. The magnitude of these recurring effects depends on changes in market values, which have been significant.

Other significant items impacting EBIT include gains and losses and other costs and charges that are typically nonrecurring for individual plants or operations. These included rationalization and impairment charges amounting to NOK 1,607 million and NOK 317 million for 2011 and 2010, respectively, together with divestment gains of NOK 1,184 million in 2011 and NOK 74 million in 2010. These also included effects relating to the Vale Aluminium acquisition amounting to NOK 4,328 million in 2011 and other items amounting to a net positive effect of NOK 242 million in 2010.

Net financial expense for the year amounted to NOK 1,288 million compared with net financial income of NOK 522 million in 2010. These amounts included net foreign currency losses of NOK 971 million in 2011 and net foreign currency gains of NOK 513 million for 2010. The currency gains in 2010 related primarily to intercompany balances denominated in Euro. The gains have no cash effect and are offset in equity by translation of the corresponding subsidiaries during consolidation. Corresponding net currency gains in 2011 amounted to NOK 27 million.

Income taxes amounted to a charge of NOK 1,790 million in 2011, compared with a charge of NOK 1,588 million in 2010. For 2011, income tax expense was 21 percent of pre-tax income. The low tax rate results from tax-free gains on the sales of the shareholding in SKS Produksjon and Alpart, and the tax-free gain from the revaluation of Hydro's previous ownership interests in Alunorte, and CAP recognized in the first quarter. The effect was somewhat offset by impairment charges having no tax effect and the write down of deferred tax assets recognized in the fourth quarter.

Net income amounted to NOK 6,749 million in 2011, compared with NOK 2,188 million in 2010.

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.

Underlying EBIT improved for Bauxite & Alumina mainly due to the inclusion of the acquired bauxite and alumina activities from Vale from March 1, 2011. Pro forma underlying EBIT for Bauxite & Alumina [1] declined to NOK 969 million in 2011 from NOK 1,225 million in 2010 which included insurance proceeds from the settlement of a claim for business interruption. Bauxite production improved throughout the year. Alumina production at Alunorte increased slightly. Realized alumina prices improved compared to 2010 driven by higher LME prices, but positive effects were mostly offset by increased raw material costs.

Underlying EBIT for Primary Metal improved significantly in 2011 driven by higher realized aluminium prices, higher volumes and improved earnings for Qatalum following completion of ramp-up of the plant. Positive developments were partly offset by substantially higher raw material costs. Inclusion of the Albras smelter from March 1, 2011 also had a positive effect on underlying EBIT. Excluding Albras, higher realized aluminium prices together with higher premiums contributed about NOK 2.5 billion to underlying EBIT compared with 2010. LME linked alumina costs increased together with higher costs for carbon and power. Fixed costs for our

1) To provide a presentation of Hydro's performance on a comparable basis, this additional information relating to developments in underlying EBIT for Bauxite & Alumina is presented including the results of the acquired Vale assets for the full calendar quarter when the acquisition was completed in 2011 and for 2010. See note 5 to the consolidated financial statements later in this report for more information on the acquisition.

Key financial information

NOK million, except per share data	**Year 2011**	Year 2010
Revenue	**91 444**	75 754
Earnings before financial items and tax (EBIT)	**9 827**	3 184
Items excluded from underlying EBIT [1]	**(3 694)**	167
Underlying EBIT	**6 133**	3 351
Underlying EBIT :		
Bauxite & Alumina	**887**	633
Primary Metal	**2 486**	617
Metal Markets	**441**	321
Rolled Products	**673**	864
Extruded Products	**151**	444
Energy	**1 883**	1 416
Other and eliminations	**(389)**	(945)
Underlying EBIT	**6 133**	3 351
Underlying EBITDA	**11 152**	6 420
Net income (loss)	**6 749**	2 118
Underlying net income (loss)	**3 947**	1 852
Earnings per share [2]	**3.41**	1.33
Underlying earnings per share [2]	**1.89**	1.14
Financial data:		
Investments	**48 025**	6 231
Adjusted net interest-bearing debt [3]	**(19 895)**	(6 427)

Key Operational information [4]	**Year 2011**	Year 2010	% change prior year
Alumina production (kmt)	**5 264**	1 976	>100 %
Primary aluminium production (kmt)	**1 982**	1 415	40 %
Realized aluminium price LME (USD/mt) [5]	**2 480**	2 113	17 %
Realized aluminium price LME (NOK/mt) [5]	**13 884**	12 674	10 %
Realized NOK/USD exchange rate	**5.60**	6.00	(7) %
Metal Markets sales volumes to external market (kmt) [6]	**2 091**	1 717	22 %
Rolled Products sales volumes to external market (kmt)	**929**	945	(2) %
Extruded Products sales volumes to external market (kmt)	**536**	529	1 %
Power production (GWh)	**9 582**	8 144	18 %

1) See section Items excluded from underlying EBIT and net income in Hydro's Annual Report – 2011 for more information on these items.
2) Earnings per share and Underlying earnings per share are computed using net income and underlying net income attributable to Hydro shareholders, and using the weighted average number of ordinary shares outstanding, adjusted for the discount element in the rights issue completed in July 2010. There were no significant diluting elements.
3) Calculation is based on amounts as of the end of the periods presented. See note 35, Capital Management in Hydro's consolidated financial statements for a discussion on net interest-bearing debt definitions.
4) Operating statistics include proportionate share of production and prices in equity accounted investments.
5) Including the effect of strategic LME hedges (hedge accounting applied).
6) Excluding ingot trading volumes.

smelter portfolio excluding Albras declined somewhat. Underlying EBIT improved in 2011 for Qatalum, which reached full production on September 21. Insurance proceeds relating to the power outage in August 2010 which were included in underlying results for 2011 amounted to NOK 145 million. Proceeds amounted to NOK 300 million in 2010, of which NOK 210 million was included in underlying EBIT.

Developments in underlying EBIT for Metal Markets in 2011 were heavily influenced by net positive currency and inventory valuation effects compared with significant net negative effects for 2010. Underlying EBIT excluding these items declined, impacted by a lower contribution from our sourcing and trading activities. Results for our remelt operations improved somewhat for the year. Total metal product sales improved compared with 2010, mainly due to the inclusion of Albras casthouse volumes from March 1, 2011 and increased volumes from Qatalum. The positive effects were partly offset by lower extrusion ingot and sheet ingot sales volumes in Europe due to weaker markets.

Underlying EBIT for Rolled Products declined in 2011 compared to the record results achieved in the previous year, mainly due to lower sales volumes and somewhat higher operating costs. Volumes declined somewhat in total, reflecting weaker markets in the second half of 2011. Margins improved in the first half of 2011 but were under pressure during the second half, mainly related to the general engineering applications. Operating costs increased, driven by higher energy prices and other production related costs.

Underlying EBIT for Extruded Products declined substantially in 2011, mainly as a result of lower volumes for our higher margin building systems operations and lower margins for our European general extrusion operations. Cost reduction initiatives resulted in lower operating costs, partly offsetting the negative market developments. Our Americas extrusion operations and global precision tubing business delivered improved underlying results for the year. Overall volumes increased compared to the previous year as markets improved during the first half of 2011. However, demand weakened in the second half of the year due to growing economic uncertainty, impacting our European extrusion business in particular. Weak demand and increasing overcapacity in Southern Europe has resulted in significant pressure on margins in Europe. Measures implemented across our European general extrusion operations have reduced our operating cost per mt, partly offsetting margin declines.

Underlying EBIT for Energy increased in 2011, mainly due to higher production and lower area price differences, partly offset by lower prices. In addition, strong results from commercial activities contributed positively to underlying EBIT for 2011. Direct production costs declined in 2011 due to lower transmission costs.

Liquidity, financial position, investments

Cash and short-term investments exceeded interest-bearing debt by roughly NOK 1.7 billion at the end of 2011, down from NOK 11 billion at the end of 2010. The decline was mainly due to a net payment of NOK 5.8 billion and debt assumed of NOK 5.7 billion, both related to the Vale Aluminium acquisition.

Hydro's adjusted debt/equity ratio, defined as net interest-bearing debt divided by adjusted equity, was 0.24 at the end of the year, well below its targeted maximum ratio of 0.55.[1)]

In 2011, cash provided by operating activities of NOK 7.3 billion was more than sufficient to cover operating requirements and investments of NOK 4.3 billion[2)], as well as dividend payments of NOK 1.8 billion. Sales of non-strategic assets amounted to NOK 1.4 billion, representing an additional source of cash, in addition to net loan proceeds of NOK 0.9 billion. In addition to operating and investment activities, the main use of cash was the net payment of NOK 5.8 billion made in connection with the Vale Aluminium acquisition. Except for the Vale transaction, investments in 2011 were mainly limited to maintenance activities to safeguard our production assets.

Available credit facilities and the commercial paper market were used to cover fluctuations in cash flow during the year.

Net cash outflow amounted to NOK 2.4 billion for the year, decreasing cash, cash equivalents and bank overdraft from NOK 10.7 billion at the end of 2010 to NOK 8.3 billion at the end of 2011.

Hydro's adjusted funds from operation/adjusted net interest-bearing debt ratio was 0.42 for 2011, which was above our minimum target of 0.40.

Hydro expects that cash from continuing operations, together with its liquidity holdings and available credit facilities, will be more than sufficient to cover our planned capital expenditures, operational requirements, and financing activities in 2012.

Outlook

Demand for most metal products (extrusion ingot, sheet ingot, foundry alloys and wire rod) in Europe weakened during the year. North American demand was stronger in general. Demand

1) The adjustments are mainly comprised of net unfunded pension obligations after tax, the present value of operating lease obligations and Hydro's portion of interest bearing debt in equity accounted investees.
2) Excluding amounts relating to the Vale Aluminium acquisition.

for foundry alloys continued to be strong in Northern Europe and in Germany in particular, and also improved in Asia. Annualized production of primary aluminium was relatively stable in the final quarter of 2011 amounting to 26.6 million mt globally (excluding China). Corresponding annualized consumption declined, however, to 24.7 million mt. Recent announcements of smelter closures and limited new capacity coming on stream are expected to improve the supply demand balance in 2012. Demand for primary aluminium is expected to grow by about 3-5 percent in 2012. However, market sentiment continues to be influenced by significant economic uncertainty.

European demand for downstream products was somewhat higher compared to 2010 as most markets continued to recover in the first half of 2011. However, demand weakened in the second half of 2011 due to increasing economic uncertainty in Europe and in Southern Europe in particular. Economic and market developments for 2012 are uncertain with low visibility. However, certain leading indicators are positive for rolled products. European demand for extruded aluminium products is expected to decline in 2012 with the building and construction market continuing to be the weakest end use market segment. Outside of Europe, the market outlook is positive, and within the automotive and transport segments in particular.

Power production in Norway amounted to 127 TWh, which is 3 TWh higher than 2010. Hydro's water reservoirs were well above normal at the end of 2011 and snow reservoirs increased significantly. As a result, production is expected to be high through the first quarter of 2012.

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 a substantial increase in uncertainty regarding economic developments within the countries and geographic regions in which Hydro operates. The majority 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. 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'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. No major currency-forward contracts were outstanding at the end of 2011.

Controls and procedures

Hydro follows the Norwegian Code of Practice for Corporate Governance of October 2010. A detailed description of Hydro's compliance with this code is presented on page 20. Information regarding the company's shareholder policy can be found on page 18.

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 2011, research and development costs recognized as an expense amounted to NOK 508 million compared to NOK 543 million in 2010.

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 in Årdal (primary aluminium technology) and Sunndal (alloys and casting) in Norway, Bonn in Germany (rolled products) and Toulouse in France (building systems).

We reviewed our R&D organization in 2011. Starting in 2012, all business areas will be responsible for their own technology development and execution of their respective technology strategies. As part of the new organizational model, a

Corporate Technology Office has been established to ensure a holistic and long-term approach to Hydro's technology strategy and agenda.

Within Bauxite & Alumina, we cooperate across the industry and with external research institutes to further develop parts of the production processes and to gain information about different alumina qualities. We are working together with suppliers on process development at our alumina refinery Alunorte.

Hydro's proprietary electrolytic process is one of the most efficient in the world. The primary aluminium plants in Sunndal in Norway and Qatalum in Qatar are using the newest technology. Our next generation technology, HAL4e, is ready for use the next time we build a primary aluminium plant. 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.

We work closely with customers to develop products that save energy and reduce emissions. Aluminium façades can lower operating costs and help buildings produce as much energy as they consume during operation. The energy neutrality is achieved by using heat pumps, integrated photovoltaic systems and intelligent building design. In 2011, we entered into the partnership Powerhouse, which is aiming to construct an energy-neutral commercial building as far north as Trondheim in Norway.

Work environment

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 3.1 percent in 2011, down from 3.3 percent in 2010. The rules for sick-leave registration differ from country to country. Hydro's sick leave in Norway is significantly higher than in the rest of the company, on average, but relatively low compared to the average rate in Norwegian industry. Sick leave in Norway was 4.4 percent in 2011, the same as in the previous year. Men's sick leave was 4.1 percent, slightly below the 2010 level of 4.2 percent, while women's sick leave increased from 5.5 percent in 2010 to 5.7 percent in 2011. Starting in 2012, we will be introducing a new sick-leave indicator that will be comparable across country borders.

Our TRI rate (total recordable injuries per million hours worked) was 3.8 in 2011, which was an increase of 2 percent compared to the previous year. Our target was a 28 percent decrease. We had three fatal accidents in our consolidated operations, and an accident with two fatalities in one of our minority-owned activities. Even though our safety results are among the best in industry, we are far from satisfied. In 2012 we are aiming at a 25 percent reduction in the TRI rate to 2.85 with no fatal accidents.

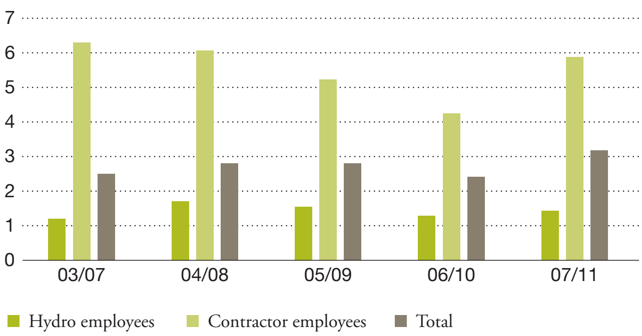
We have initiated several measures to improve performance. These include a common, company-wide high-risk incident investigation and communication tool, which will be implemented in 2012, and we have defined man/machine interface, traffic and contractors as priorities for 2011 and 2012, and we are updating our safety risk-assessment handbook.

Environment

We have for several decades monitored our impact on the environment 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:

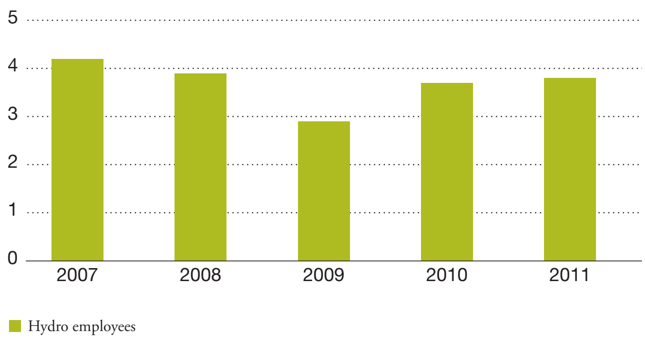
Fatal accidents

Per 100 million hours worked, five-year rolling average



Total recordable injuries

Per million hours worked



- 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

Hydro's greenhouse gas emissions from our current consolidated activities decreased by 5 percent in 2011 compared with 2010. Following Qatalum coming into full production, total emissions from our ownership equity, including emissions from electricity generation, increased by 10 percent. Due to our new assets in Brazil, our direct greenhouse-gas emissions from consolidated activities increased by 4.5 million metric tons (mt) compared to the figures reported in Hydro's board report in 2010.

In 2009, we revised our goal to a specific direct emission from primary production of 1.52 mt CO2e per mt aluminium in 2013. With performance of 1.61 mt CO2e per mt aluminium last year, we are approaching this 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. By 2020, we aim to recover 1 million metric tons (mt) of contaminated and post-consumer scrap annually. We have improved utilization of our existing capacity to almost 100 percent during the last two years, and are now recycling more than 270,000 mt annually. Due to curtailments in remelting and recycling capacity, growth was only about 3 percent compared to 2010. In total, Hydro is remelting and recycling more than 2 million mt of aluminium. Our goal for 2012 is to stabilize at above 90 percent capacity utilization and to develop specific post-consumed scrap projects for investment in additional capacity. This will also improve Hydro's carbon footprint.

In addition to our existing climate strategy and recycling strategy, we decided in 2011 to concentrate on four areas going forward:

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

When bauxite extraction is finished in an area, rehabilitation starts. Hydro's Paragominas mine started production in 2006 and the reforestation program started in 2009. We have identified improvement potentials with regards to reforestation and wildlife management at Paragominas, and are evaluating possible adjustments. In total 853 hectares of land was disturbed during 2011 and about 4,700 hectares since the mining operations started. In 2011 we rehabilitated 142 hectares, while approximately 400 hectares have been rehabilitated in total since the operations started.

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 2011 showed that in total, about 3 percent of our water input came from water-stressed areas when regarding annual renewable water supply.

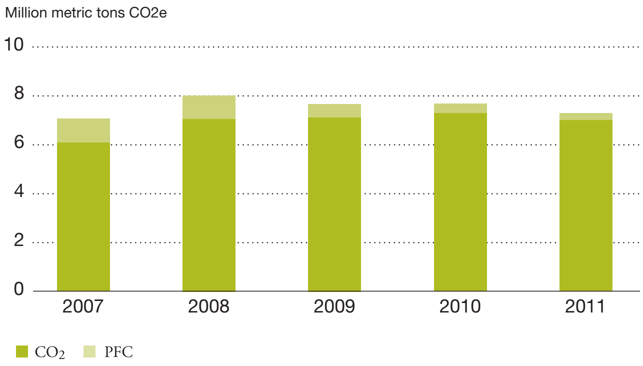
Although the Amazon is recognized for having an abundance of water we have over the last decades observed that parts of the area have had repeated droughts. We will therefore carefully address water as an issue also for our sites in Brazil. Qatalum, where Hydro holds a 50-percent share, gets water from public water works which is produced by desalination. Sea water is used for wet cooling towers at the power plant.

With the new assets in Brazil, Hydro's waste production now 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. No chemicals are added. 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 2011, Hydro produced 5.9 million mt of tailings.

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 2011, Hydro produced 6.4 million mt of bauxite residue.

Spent potlining (SPL) from the electrolytic cells used in primary aluminium production is defined as hazardous waste. In 2011, Hydro produced 24,804 mt of SPL, a 29 percent decrease from 2010. Production of SPL varies with the relin-

Direct greenhouse gas emissions from Hydro's consolidated activities



Figures include historical emission from current operations.

ing 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 in a couple of years.

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 catastrophe could influence the safety of the community. We are thereby subject to control and follow-up by national authorities. These high-risk issues are core to our emergency planning and we keep a high state of readiness through regular training and monitoring 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, including our new activities in Brazil.

Integrity and human rights

Hydro's Integrity Program is our main means to prevent corruption and human rights violations. The program is based on Hydro's code of conduct which is approved by the board of directors. The program includes risk mapping, tools and training.

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 fora to uphold the right of employees to influence their work situation, like in Qatar and China.

In 2011, Hydro reviewed its strategy for sponsorships and partnerships. To support the strategy and improve our overview, we initiated a reporting pilot which includes reporting requirements on outcomes for Hydro and the society. Hydro spent in 2011 more than NOK 61 million on community investments, charitable donations and sponsorships of which more than half was related to social 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.

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. In 2011, we became a member of the International Council on Mining and Metals (ICMM) and are committed to following the ICMM's 10 Principles. We use the Global Reporting Initiative (GRI) G3 Guidelines for voluntary reporting of sustainable development. See www.hydro.com/gri

Employees

Hydro had 22,655 permanent employees at the end of 2011, an increase from 18,894 in 2010. In addition, we had 1,368 temporary employees as well as contractor employees representing about 8,900 full-time equivalents during 2011. The increase in employees last year was mainly due to the acquisition of Vale's former aluminium business, while restructuring measures elsewhere in the company, especially within Hydro Building Systems, had an opposite effect on the overall level. We now have the highest number of employees in Brazil, followed by Germany, Norway and the U.S.

Hydro reviewed its people strategy in 2011. The strategy's five pillars are our performance culture, competence management, leadership pipeline, diversity, and mobility.

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. In 2011, we initiated a program to welcome our

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

NOK million	**2011**	2010	2009	2008	2007
Australia	**-**	-	(0.7)	0.4	6
Brazil	**48**	98	160	139	89

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 2010, but not in the financial audit. Hydro divested in 2011 its ownership share in Alpart, Jamaica.

Share of non-Norwegian leaders

Share of women leaders

The total share of women at all levels in Hydro was 14 percent in 2011.

new employees in Brazil, which included an introduction package about Hydro and the company's ambitions and values. Our aim is that all the new employees in Brazil should take part in 2012 in a program to learn about Hydro's values, HSE and social responsibility principles, and value chain.

We emphasize diversity with regard to nationality, culture, gender and educational background when recruiting and when forming management teams and other working groups. While 84 percent of top management are Norwegian or German, only 36 percent of Hydro's employees are the same. Women are represented in all business area management teams, and most female executives hired in recent years have been recruited internally. We are aiming at further diversity at all levels and plan to launch a diversity awareness program globally in 2012.

Fourteen percent of Hydro's employees globally are women, compared to 11 percent in Brazil and Germany, 18 percent in Norway and 19 percent in USA. Around 80 new employees were recruited to the Norwegian part of the organization in 2011, compared to 100 in 2010. Of these, 19 percent were women in 2011, compared to 20 percent in 2010.

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

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 2011. If significant differences are found at any level, we have a tradition for closing the gaps within a short time.

HSE, organization development and social responsibility are part of the bonus evaluation for the President and CEO and other members of the corporate management board. See Note 10 and 11 for further information on executive compensation.

The board of directors would like to acknowledge Hydro's employees for their high spirit, significant adaptability and important achievements at operations across the world, and for strengthening Hydro's competitiveness in a challenging market situation.

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 has also used significant time on the completion of the Vale transaction and integration follow up. This included a visit to Brazil and Hydro's mining operations in Paragominas, the Alunorte refinery, the Albras smelter and Hydro's regional headquarter in Rio de Janeiro. The visit included follow-up of the integration and operations of the businesses acquired from Vale, and different social programs established in connection with these operations. The board of directors was also involved in evaluating market developments including continuous evaluation of curtailed capacity.

In 2011, the board of directors also completed a self-assessment and a separate assessment of the board's chairperson. Both were presented to the nomination committee. The evaluation processes were facilitated by an external service provider.

The board of directors held 10 meetings in 2011 with an attendance of 92 percent. The compensation committee held seven meetings and the audit committee nine meetings.

Tito Botelho Martins Jr. joined the board of directors on February 28, 2011 as a 10th board member. On May 13, Ove Ellefsen was elected as board member. He replaced Jørn B. Lilleby as one of the Board's three employee representatives.

Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had net income of NOK 2,613 million in 2011 compared with a net income of NOK 1,712 million in 2010.

Hydro's board of directors proposes to pay a dividend of NOK 0.75 per share for 2011 reflecting the company's strong commitment to provide a cash return to its shareholders. The dividend reflects our operational performance for 2011 and a strong financial position, and takes into consideration the uncertain market outlook.

Unrestricted equity after the proposed dividend payment amounted to NOK 28,013 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 20, 2012

Terje Vareberg
Chair

Bente Rathe
Deputy chair

Billy Fredagsvik
Board member

Finn Jebsen
Board member

Inge K. Hansen
Board member

Ove Ellefsen
Board member

Sten Roar Martinsen
Board member

Liv Monica Bargem Stubholt
Board member

Eva Persson
Board member

Tito Martins
Board member

Svein Richard Brandtzæg
President and CEO

Shareholder information

Hydro's share price closed at NOK 27.74 at the end of 2011. The return for 2011 was negative, amounting to NOK 14.87 per share, or 35 percent. Hydro's board of directors proposes to pay a dividend of NOK 0.75 per share for 2011, for approval by the Annual General Meeting on May 8, 2012, reflecting the company's strong commitment to provide a cash return to its shareholders. The dividend reflects the operational performance for 2011 and a strong financial position, and takes into consideration the uncertain market outlook.

There were 2,036,459,019 outstanding shares at the end of 2011. A total of 2.1 billion Hydro shares were traded on the Oslo Stock Exchange during 2011, representing 5.2 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 dividends over time to our shareholders. In setting the dividend for a specific year, we will consider 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 bench marked against alternative investments in comparable companies.

Hydro's board of directors normally proposes a dividend per share in connection with the publication of our fourth-quarter results. The Annual General Meeting then considers this proposal in May each year, and the approved dividend is subsequently paid to shareholders in May or June. We pay dividends once per 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 to buy 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 for which share buybacks can be made.

Major shareholders and voting rights

An overview of Hydro's major shareholders as of December 31, 2011, is provided in Note 13 in Notes to the financial statements Norsk Hydro ASA.

Annual general meeting

The Annual General Meeting will be held at the company's headquarters at Drammensveien 260, Oslo, Norway, on Tuesday, May 8, 2012, at 17:00 CET. Shareholders who wish to attend are asked to inform the registrar by 12:00 CET on Monday, May 7:

DnB NOR Bank ASA,
Verdipapirservice
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.

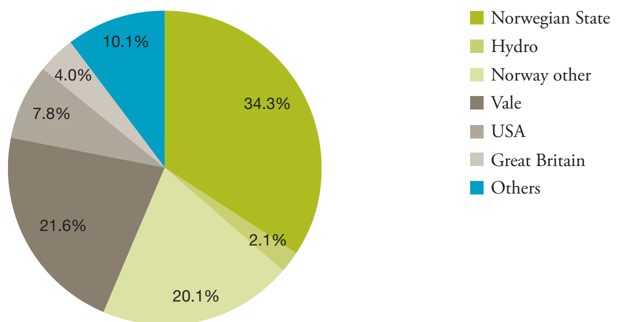
Change of address

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

Financial calendar 2012

April 27	First quarter results
May 8	Annual General Meeting
May 9	Shares traded ex-dividend
May 11	Record date for dividend
July 24	Second quarter results
October 23	Third quarter results
November 29	Capital Markets Day

Geographical ownership distribution of shares



Key figures for the Hydro share

	2011	2010	2009	2008	2007
Share price high, Oslo (NOK) [1]	48.24	50.30	49.25	85.60	80.13
Share price low, Oslo (NOK)	23.96	29.06	20.40	21.20	68.00
Share price average, Oslo (NOK)	36.92	38.75	33.65	57.32	70.32
Share price year-end, Oslo (NOK)	27.74	42.61	48.71	27.80	77.60
Earnings per share (EPS) (NOK)	3.41	1.33	0.25	(3.25)	14.90
EPS from continuing operations (NOK) [2]	3.41	1.33	0.25	(3.04)	7.20
Dividend per share (NOK) [3]	0.75	0.75	0.50	0.00	5.00
Pay-out ratio [4]	22%	56%	200%	-	69%
Dividend growth	0%	50%	-	-100%	0%
Pay-out ratio five year average [5]	77%	57%	39%	38%	34%
Adjusted debt/equity ratio [6]	0.24	0.11	0.32	0.30	0.01
Credit rating, Standard & Poor's	BBB	BBB	BBB-	BBB	BBB
Credit rating, Moody's	Baa2	Baa2	Baa2	Baa1	Baa1
Non-Norwegian ownership, year-end	44%	23%	27%	33%	42%
Outstanding shares, average	1 965 039 601	1 419 052 116	1 205 376 724	1 209 143 809	1 221 195 650
Outstanding shares, year-end	2 036 459 019	1 587 776 741	1 204 785 945	1 206 325 863	1 209 304 379

1) An adjustment factor of 0.324396 bas been used for share prices prior to the demerger of the oil and gas activities on October 1, 2007. The adjustments are according to Oslo Stock Exchange's calculation methods.
2) Oil and gas activities only included as discontinued for 2007.
3) 2011 dividend per share proposed by Board of Directors, dependant on approval from the Annual General Meeting May 8, 2012.
4) Dividend per share divided by earnings per share from continuing operations.
5) Dividend per share divided by earnings per share from continuing operations for last five years.
6) See note 35 to the Consolidated Financial Statements.

Norwegian code of practice for corporate governance

The table below shows specific information related to the Norwegian code of practice on corporate governance and should be seen in context with the general corporate governance report given in Hydro's Annual Report 2011.

Page numbers and notes to the consolidated financial statements refer to this report. All other references can be found at www.hydro.com/governance where a table with full references is available.

	Topic	Comments	References
1	Statement of Corporate Governance	Hydro follows the Norwegian Code of Practice for Corporate Governance of 2010 including all its recommendations. 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 HSE and corporate responsibility.	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 23,000 employees in over 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.	Hydro's Articles of Association are available at www.hydro.com/governance Page 6
3	Equity and dividends	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. When the general meeting 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 of shareholders. Authorization granted to the board is restricted to specific purposes. One example of this is the Vale transaction, where the board of directors was authorized to issue consideration shares to Vale. See also item 4.	Page 18-19
4	Equal treatment of shareholders	Hydro has one share class. 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 and the investors is normally conducted via the management. Under special circumstances the board, represented by the chair, may conduct dialog directly with investors.	Page 18 Note 11

Topic	Comments	References
	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 in 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. Information on the consequences of the issue for existing and new shareholders was made public in June and July 2010 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 how any conflicts of interest that may arise should be dealt with. The code applies to all board of directors members and Hydro employees. It is the opinion of the board of directors that there were no material transactions between the group and its shareholders, board members, officers or close associates of such parties in 2011.	www.hydro.com/principles
	Regulation of share issues and pre-emptive rights are described in Hydro's Articles of Association.	www.hydro.com/governance
State ownership	As of December 31, 2011, the Norwegian state, represented by the Ministry of Trade and Industry, owned 34.3 percent of Hydro's issued shares. Hydro holds regular meetings with the Ministry, where topics discussed include Hydro's economic development, 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 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.	Page F75
5 Freely negotiable shares	The Hydro share is freely negotiable. They are among the most traded shares on the Oslo Stock Exchange and are subject to efficient pricing.	Page 18
	As of 31 December 2011, the Norwegian state, represented by the Ministry of Trade and Industry owned 34.3 percent of Hydro's issued shares. The Government Pension Fund Norway owned 4.2 percent.	
	Under the transaction with Hydro, Vale received 22 percent of Hydro's outstanding shares. At the same time, Norwegian state ownership, represented by the Ministry of Trade and Industry, was reduced from 43.7 percent to 34.3 percent. Under the agreement between Hydro and Vale, Vale 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.	

Topic	Comments	References
6 General meeting	The notice of a general meeting of shareholders is normally published on www.hydro.com approximately four weeks in advance, and is sent to the shareholders at least three weeks before the meetings are held.	www.hydro.com/governance
	Notice of general meetings provides information on the procedures which shareholders must observe in order to participate in and vote at the meetings. Notices also detail: • 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 • 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 • 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	Read more about The Hydro Share at www.hydro.com/no/investor
	Our aim is that the 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 is five days prior to the meeting. Shares registered in a nominee account must be re-registered in the Norwegian Central Securities Depository no later than the fifth business day before the general meeting 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 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. On 5 May 2011 the general meeting resolved that the possibility to cast advance votes electronically may be given. The general meeting 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, nomination committee representative(s) and the external auditor attend the Annual General Meeting. **Deviation:** *The board of directors and the nomination committee are represented at the general meeting of shareholders, but all members are not necessarily present.*	
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 chairperson and members are appointed by the general meeting of shareholders. At least two, including the chairperson, must be elected from among the representatives in the corporate assembly elected by the shareholders.	Read more about Hydro's Articles of Association and the nomination committee's mandate and members at www.hydro.com/governance
	The shareholders may propose candidates for the board of directors , the corporate assembly and the nomination committee.	Nominations may be submitted electronically via www.hydro.com/governance

Topic	Comments	References
	The general meeting of shareholders has established guidelines for the nomination committee (May 5, 2011). The general meeting also determines the remuneration of the committee. All shareholders may submit proposals to the nomination committee of candidates to the corpo 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. All members of the nomination committee are independent of Hydro's board of directors, Chief Executive Officer and other executive management. As the largest shareholder, the Norwegian state is represented on the nomination committee by Mette I. Wikborg, Director General of the Ownership Department, on behalf of the Ministry of Trade and Industry.	
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. Lars Tronsgård, a member of the corporate assembly, is an employee of the Government Pension Fund Norway. Tito Botelho Martins Jr., who is Chief Financial Officer in Vale S.A., sits on Hydro's 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 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 chairperson and deputy chairperson.	An overview of the members of the corporate assembly, can be found at www.hydro.com/governance Vale S.A. and the Government Pension Fund Norway are significant shareholders in Hydro; see page F75.
	In compliance with Hydro's articles of association, the board consists of between 9 and 11 members. These are elected for a period of two years. The upper age limit for members of the board of directors and the corporate assembly is 70. The nomination committee aims to achieve a board composition whereby the members complement each other professionally and the board of directors is able to function as a corporate body. As from 28 February 2011, Vale is represented on Hydro's board of directors. This decision was approved by Hydro's general meeting of shareholders and corporate assembly. On the same date, Tito Martins Jr. was appointed as a 10th member of Hydro's board of directors. As of 31 December 2011, seven of the board's directors own a total of 118,715 shares. Hydro has no share purchase program for members of the board of directors, 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.	See Hydro's articles of association at www.hydro.com/governance
9 The work of the board of directors	The board of directors has established procedures for its own work and for the executive management, with particular emphasis on clear internal division of responsibilities whereby the board has responsibility for supervising and administrating the company and the executive management has responsibility for the general operation of the Group.	The board of directors' mandate is available at www.hydro.com/governance

Topic	Comments	References
	If the chairperson of the board of directors is or has been actively engaged in a given case, another board member 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 board of directors conducts an annual self-assessment of its work, competence and cooperation with management and a separate assessment of the chairperson. Both assessments are submitted to the nomination committee, which in turn assesses the board of directors' composition, competence and performance.	For more details about the composition and tasks of these committees, please see www.hydro.com/governance
10 Risk management and internal controls	The board of directors ensures that the company has sound internal controls and appropriate risk management systems through, for example, an annual review of the key risk areas and the company's internal controls. Internal audit 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 corporate responsibility requirements. The annual report contains a more detailed description of the company's internal controls and risk management systems related to financial reporting.	Page 12
11 Remuneration of the board of directors	The shareholder-elected members of th board of directors perform no duties for the company other than their board duties. Remuneration is determined by the Corporate Assembly 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.	All aspects of remuneration of the board directors are described in Note 44. Hydro's articles of association are available at www.hydro.com/governance
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 pay policy, which is that 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. Determination of the level of the total compensation package will be first and foremost based on being competitive, but not a wage leader.	The board's guidelines for management remuneration are described in Note 10. All aspects of remuneration of executive management are described in Note 11. Hydro's remuneration policy is also described in Hydro's People Policy, which is available at www.hydro.com/principles See also page 16.
	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.	Learn more about performance-based compensation and long-term incentives in Notes 10 and 11.

Topic	Comments	References
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.	Page 12
	A financial calendar is available in this report and at www.hydro.com	Page 18
	Shareholder information is available at www.hydro.com The Financial Statements and Annual Report are sent free of charge to shareholders on request. Notice of a general meeting of shareholders is sent directly to shareholders unless they have consented to receive these documents electronically.	Read more about the Hydro share at www.hydro.com/no/investor
14 Takeovers	The board of directors will handle takeover bids in accordance with Norwegian law and the Norwegian Code of Practice for Corporate Governance. No mechanisms to prevent takeover bids are contained in our Articles of Association or underlying steering documents, nor have we implemented any measures limiting opportunities to buy 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.	
	Deviation: *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 34.3 percent of the Hydro shares issuedd (as of 31.12.2011) and has clearly expressed a long-term ownership perspective in the company for the purpose of retaining its head office and research activities in Norway. Reference is given to e.g. the Active Ownership Report (Report to the Storting no. 13, 2010-2011).*	
15 Auditor	Every year the external auditor presents to the audit committee the main features of the plan for the audit of the company.	Page F77
	The external auditor participates in considering relevant matters at all meetings of the Audit Committee. The minutes from these meetings are distributed to all member of the board of directors. This practice is in line with the EU Audit Directive.	
	The external auditor expresses its opinion on internal control procedures in an annual management letter.	
	The external auditor participates in board of directors' 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 exteranl auditor and executive management may disagree, and identify weaknesses in and suggest improvements to the company's internal controls.	
	Both the board of directors and the audit committee hold meetings with the external auditor without members of the corporate management present. The audit committee holds meetings with the management of Internal audit at least once a year without members of the executive 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, are subject to prior approval as defined by the audit committee.	
	Remuneration of the external auditor is stated in the annual report and approved the general meeting of shareholders	Note 43
	In 2010 the general meeting of shareholders chose KPMG as the new group external auditor with effect from reporting period 2010.	

Financial statements

Consolidated financial statements

Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended December 31	Notes	**2011**	2010
Revenue	7	**91 444**	75 754
Share of the profit (loss) in equity accounted investments	7, 25, 26	**(260)**	(606)
Other income, net	7, 8	**6 222**	568
Total revenue and income		**97 406**	75 717
Raw material and energy expense	9	**55 825**	48 694
Employee benefit expense	11	**11 202**	10 282
Depreciation and amortization expense	12	**4 928**	2 952
Impairment of non-current assets	13	**1 231**	32
Other	14, 15	**14 394**	10 573
Total expenses		**87 579**	72 533
Earnings before financial items and tax	7	**9 827**	3 184
Financial income	16	**209**	346
Financial expense	16	**(1 498)**	176
Financial income (expense), net		**(1 288)**	522
Income before tax		**8 539**	3 706
Income taxes	17	**(1 790)**	(1 588)
Net income		**6 749**	2 118
Net income attributable to minority interests		**44**	230
Net income attributable to Hydro shareholders		**6 705**	1 888
Basic and diluted earnings per share attributable to Hydro shareholders	34	**3.41**	1.33

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	**2011**	2010
Net income		**6 749**	2 118
Other comprehensive income			
Currency translation differences, net of tax	34	**(3 264)**	(932)
Unrealized gain (loss) on securities, net of tax	34	**(259)**	22
Cash flow hedges, net of tax	34	**58**	(58)
Share of other comprehensive income in equity accounted investments, net of tax	34	**(289)**	(234)
Other comprehensive income		**(3 754)**	(1 201)
Total comprehensive income		**2 995**	917
Total comprehensive income attributable to minority interests		**(272)**	260
Total comprehensive income attributable to Hydro shareholders		**3 267**	657

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

Consolidated balance sheets

Amounts in NOK million, December 31	Notes	**2011**	2010	2009
Assets				
Cash and cash equivalents		**8 365**	10 929	2 573
Short-term investments	18	**1 780**	1 321	1 519
Accounts receivable	19	**13 217**	12 783	11 571
Inventories	20	**14 157**	10 971	10 030
Other current financial assets	40	**666**	814	2 109
Total current assets	7	**38 185**	36 817	27 802
Property, plant and equipment	22	**64 192**	24 849	25 647
Intangible assets	23, 24	**7 930**	1 920	1 881
Investments accounted for using the equity method	25, 26	**11 442**	18 649	15 721
Other non-current assets	21, 40	**7 348**	3 391	3 818
Prepaid pension	32	**1 596**	1 481	1 328
Deferred tax assets	33	**1 860**	1 681	1 402
Total non-current assets	7	**94 368**	51 971	49 797
Total assets	7	**132 554**	88 788	77 599
Liabilities and equity				
Bank loans and other interest-bearing short-term debt	28	**4 248**	940	2 010
Trade and other payables	29	**12 316**	9 920	9 917
Provisions	31	**1 369**	1 758	1 094
Taxes payable		**2 505**	1 999	1 196
Other current financial liabilities	2, 40	**779**	1 292	826
Total current liabilities		**21 216**	15 910	15 042
Long-term debt	30	**4 190**	328	88
Provisions	31	**3 331**	2 104	2 007
Pension obligation	32	**9 099**	9 088	9 368
Other non-current financial liabilities	2, 40	**2 943**	1 895	2 144
Other liabilities		**1 282**	838	906
Deferred tax liabilities	2, 33	**5 325**	1 183	849
Total non-current liabilities		**26 170**	15 435	15 361
Total liabilities		**47 386**	31 346	30 403
Share capital	34	**2 272**	1 780	1 362
Additional paid-in capital	34	**29 056**	9 553	43
Treasury shares	34	**(1 084)**	(1 112)	(1 177)
Retained earnings	2	**51 792**	46 616	45 128
Other components of equity	34	**(3 856)**	(418)	813
Equity attributable to Hydro shareholders		**78 180**	56 418	46 169
Minority interests		**6 988**	1 025	1 026
Total equity		**85 168**	57 443	47 195
Total liabilities and equity		**132 554**	88 788	77 599

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	**2011**	2010
Operating activities			
Net income		**6 749**	2 118
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment	7, 12, 13	**6 158**	2 985
Share of loss in equity accounted investments	7, 25, 26	**260**	606
Dividends received from equity accounted investments	25, 26	**99**	108
Deferred taxes		**(103)**	(64)
Gain on sale of non-current assets		**(5 328)**	(49)
Loss (gain) on foreign currency transactions	16	**971**	(513)
Net sales (purchases) of trading securities		**(16)**	233
Capitalized interest	16	**(1)**	(5)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		**445**	(1 693)
Inventories		**(1 158)**	(1 176)
Trade and other payables		**759**	311
Financial and commodity derivatives		**(357)**	2 003
Other items		**(1 201)**	1 499
Net cash provided by operating activities	42	**7 277**	6 363
Investing activities			
Purchases of property, plant and equipment		**(3 841)**	(2 138)
Purchases of other long-term investments		**(6 328)**	(3 918)
Proceeds from sales of property, plant and equipment		**110**	23
Proceeds from sales of other long-term investments		**1 295**	(18)
Net cash used in investing activities		**(8 764)**	(6 051)
Financing activities			
Loan proceeds		**3 668**	3 167
Principal repayments		**(2 880)**	(4 056)
Net increase (decrease) in other short-term debt		**146**	(180)
Proceeds from shares issued		**88**	9 910
Dividends paid		**(1 781)**	(866)
Net cash provided by (used in) financing activities		**(759)**	7 975
Foreign currency effects on cash and bank overdraft		**(145)**	(51)
Net increase (decrease) in cash, cash equivalents and bank overdraft		**(2 391)**	8 236
Cash, cash equivalents and bank overdraft at beginning of year		**10 735**	2 499
Cash, cash equivalents and bank overdraft at end of year	42	**8 344**	10 735

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, 2009		1 362	43	(1 177)	45 128	813	46 169	1 026	47 195
Treasury shares reissued to employees	34		15	65			80		80
Shares issued	34	418	9 495				9 913		9 913
Dividends	36				(603)		(603)	(263)	(866)
Equity interests purchased					6		6	2	8
Total comprehensive income for the year					1 888	(1 231)	657	260	917
December 31, 2010		1 780	9 553	(1 112)	46 419	(418)	56 221	1 025	57 246
Change in accounting policy	2				197		197		197
December 31, 2010 restated		1 780	9 553	(1 112)	46 616	(418)	56 418	1 025	57 443
Treasury shares reissued to employees	34		11	28			39		39
Shares issued	34	492	19 493				19 985		19 985
Dividends	36				(1 527)		(1 527)	(314)	(1 841)
Minority interest recognized at acquisition of subsidiaries	5							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

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

Oslo, March 20, 2012

Terje Vareberg
Chair

Bente Rathe
Deputy chair

Billy Fredagsvik
Board member

Finn Jebsen
Board member

Inge K. Hansen
Board member

Ove Ellefsen
Board member

Sten Roar Martinsen
Board member

Liv Monica Bargem Stubholt
Board member

Eva Persson
Board member

Tito Martins
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 includes Norsk Hydro ASA and consolidated subsidiaries (Hydro). Hydro is headquartered in Oslo, Norway, and the group employs around 23,000 people in more than 40 countries. Hydro is a fully integrated aluminium company with operations in all major activities along the industry value chain. Operations include power production, bauxite mining, 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) and the disclosure requirements as specified under the Norwegian Accounting Law (Regnskapsloven). All standards applied by Hydro have been endorsed by the European Union (EU) and Norwegian authorities and are effective as of December 31, 2011.

The following description of accounting principles applies to Hydro's 2011 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. Dividends to minority shareholders are not presented separately.

Business combinations

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 (revised 2008) Business Combinations (IFRS 3R). 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 preexisting 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 generation 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 ability to exercise significant 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 using the equity method. This involves recognizing Hydro's interest based on its proportional share of the entity's equity, including any excess values or goodwill. Hydro recognizes its share of net income, including depreciation and amortization of excess values and any impairment losses, in Share of the profit (loss) in equity accounted investments. Other comprehensive income derived from associates and joint ventures is included in Hydro's Other comprehensive income. Hydro's proportional share of unrealized profits resulting from transactions with associate and joint ventures is eliminated.

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

Investments in associates and joint ventures are tested for impairment when there are indications of a possible loss in value. An impairment loss is recognized if the recoverable amount, estimated as the higher of fair value less cost to sell or value in use is below Hydro's carrying value. Impairment losses are reversed if circumstances change and the impairment situation is no longer deemed to exist.

Investments in 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.

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.

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. Such costs are expensed if economically viable resources are not identified.

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 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 government granted CO_2 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.

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. 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 assets include long-term financial instruments, other investments, long-term loans to employees, long-term bank accounts, 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 earned.

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 includes 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 earned. 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, the impairment is recognized in earnings. Any 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 long-term.

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 the current period's revenue and/or cost, unless the instrument is designated as a cash flow hedge instrument and qualifies for hedge accounting.

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 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.

The fair value option is currently not utilized by Hydro.

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 exposures being hedged. 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 earnings. Deferred gains and losses relating to forecasted hedged transactions that are no longer expected to occur are immediately recognized in earnings. Any amounts resulting from hedge ineffectiveness for both fair value and cash flow hedges are recognized in the current period's income statement. For fair value hedges, both the changes in the fair value of the designated derivative instrument and the changes in the fair value of the hedged item are recognized currently in earnings.

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

Changes in accounting principles
Hydro has elected to change the accounting policy for valuation of its embedded derivatives as of January 1, 2011. All embedded derivatives are now calculated on the basis of committed volumes for liability positions rather than estimated volumes. To reflect this change, financial liabilities were decreased by NOK 271 million, deferred tax was increased by NOK 74 million, resulting in a net increase of equity as of January 1, 2011 by NOK 197 million. The change is reflected in the restated balance sheet for 2010. The income statement effects for 2010 would have been immaterial, therefore the income statement for 2010 and balance sheet for 2009 has not been restated.

Hydro implemented the following new guidance as of January 1, 2011 with no material impact.
- IAS 24 (revised 2009) Related Party Disclosure
- Amendments resulting from May 2010 Annual Improvements to IFRSs

New pronouncements
As of the date of authorization of these financial statements, the following standards, amendments and interpretations have been issued by the IASB. These standards or amendments have not yet been adopted by Hydro and are relevant related to Hydro's future financial reporting. The effective date is applicable to annual accounting periods beginning on or after that date, unless stated otherwise. None of the new relevant standards will be implemented in 2012.
- IFRS 9 Financial Instruments - Classification and Measurement; effective date January 1, 2015.
- IFRS 10 Consolidated Financial Statements; effective date January 1, 2013.
- IFRS 11 Joint Arrangements; effective date January 1, 2013.
- IFRS 12 Disclosures of Interests with Other Entities; effective date January 1, 2013.
- IFRS 13 Fair Value Measurement; effective date January 1, 2013.
- IAS 19 Employee Benefits (as revised in 2011); effective date January 1, 2013.
- IAS 27 Separate Financial statements (as revised in 2011); effective date January 1, 2013.
- IAS 28 Investments in Associates and Joint Ventures (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.

As of the date of issue of Hydro's financial statements, all of the implemented standards, amendments to standards and interpretations were endorsed by the EU. The new pronouncements to be implemented in 2013 or later were not endorsed by the EU as of the date of issue of Hydro's financial statements.

Hydro is currently evaluating the potential accounting impact of IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IAS 19R, IAS 27R 2011 and IAS 28R. We expect that IFRS 11 Joint Arrangement may impact how Hydro accounts for and discloses certain of our operations conducted in co-operation with others. Further, we expect that IAS 19R Employee Benefits will impact how post employment benefits including pensions and measurement changes in the measurement related to such arrangements are reflected in our financial statements.

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, including currency swaps, foreign currency forward contracts and interest rate swaps, 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, including futures, forwards and options, 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 (i.e. bifurcated) 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 significant decrease in the market value of the asset, changes in Hydro's business plan for the asset or a significant adverse change in the business and legal climate. Each Cash Generating Unit (CGU) or individual asset is reviewed for impairment indicators. Most of Hydro's assets are assigned to CGUs, which is the lowest level where largely independent cash flows are deemed to exist. 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 asset or 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, and technology changes. We use internal business plans, quoted forward prices and our best estimate of commodity prices, currency rates, discount rates and other relevant information. In periods when observed prices in the market are considered inconsistent because they over time render either exceptionally positive cash flows or consistently negative cash flows for a majority of market participants over time, adjustments in the mid to long term prices are made in order to reflect Hydro's current expectations of net cash flows. A detailed forecast is developed for a period of three to five years with projections thereafter. Hydro does not include a general growth factor above inflation to volumes or cash flows for the purpose of impairment tests, however, market recovery towards previously observed levels is considered. Estimated cash flows are discounted with a risk adjusted discount rate derived as the weighted average cost of capital (WACC) for a similar business in the same business environment. For Hydro's businesses the pre tax nominal discount rate is estimated at between 9 and 12 percent (2010: 8.75-13.5 percent). The variance in discount rates mainly results from differences in risk free interest rates and tax levels in different regions. 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 declining, but still 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 a portfolio of long-term debt instruments. 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 projected benefit obligation (PBO) relates to Norway. The discount rate applied for Norwegian plans as of December 31, 2011 was 2.5 percent, based on government bond yield as required by IAS 19 Employee Benefits. The discount rates applied in Germany and the UK are based on high quality corporate bonds, which are available in those markets. Hydro's weighted average discount rates used are 4.9 percent for the main German plans and 4.7 percent for the main UK plans. Hydro's weighted average discount rate declined by 0.9 percentage points in 2011 due to decreased interest levels. Around 85 percent of plan assets relates to Norway. The expected rate of return on plan assets is determined to be approximately 1.5 percentage points above the yield on government bonds in Norway. Assumptions for salary increase in the remaining service period for active plan participants are based on expected salary increases for each country or economic area. 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 loss of NOK 1,817 million for the year, mainly resulting from reduced discount rates. Actual return on plan assets was NOK 292 million below the estimated return for the year. The PBO is sensitive to changes in assumed discount rates and assumed compensation rates. Based on indicative sensitivities calculated for the Norwegian plans, a 0.5 percentage point reduction or increase in the discount rate will increase or decrease the PBO in the range of 8 percent, for 2011 this is around NOK 1.6 billion. A 0.5 percentage point reduction or increase in compensation rates for all plan member categories in Norway will also decrease or increase the PBO in the range of 8 percent. The PBO 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 PBO with around 5 percent, for 2011 around NOK 1.0 billion. Changes in the aforementioned parameters and changes in the PBO will affect net periodic pension cost in subsequent periods, both the service cost and interest cost components, in addition to the amortization of any unrecognized net gains or losses.

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 description 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 - Acquisitions

On February 28, 2011 Hydro acquired the majority of Vale S.A.'s aluminium business. Vale Aluminium included the following equity interests all of which are located in the state of Pará:

- 57 percent of the shares in the alumina refinery Alunorte - Alumina do Norte do Brasil S.A. (Alunorte), increasing Hydro's ownership interest from 34 percent to 91 percent
- 60 percent ownership interest in the bauxite mine Paragominas with the right and obligation to acquire the remaining 40 percent ownership within a period of five years from completion of the acquisition. The put and call arrangements are at a fixed price and effectively transfer the majority of the economic exposure to Hydro, and is thus accounted for as a purchase of the remaining shares with deferred payment.
- 51 percent ownership in the aluminium smelter Albras - Aluminio Brasileiro S.A. (Albras)
- 61 percent ownership in Companhia de Alumina do Pará S.A. (CAP), an alumina refinery under evaluation for development, increasing Hydro ownership interest from 20 percent to 81 percent.

In addition, Hydro acquired certain commercial contracts related to sale of alumina and aluminium. The acquired business was consolidated as of the acquisition date and has improved Hydro's access to bauxite and alumina, the main raw materials for production of aluminium.

The fair value of consideration for the ownership interests as of the acquisition date was as follows:

Amounts in NOK million	
Consideration shares (22%)	19 987
Cash consideration	6 193
Deferred cash payment	1 541
Cost of acquired shares	27 721
Fair value of previously held shares in Alunorte and CAP	9 162
Fair value of Hydro's interests as of the business combination	36 883

Consideration paid on closing consisted of approximately USD 1.1 billion in cash later reduced by approximately NOK 95 million following agreed procedures in establishing closing accounts. The consideration also included 447,834,465 shares corresponding to 22 percent of Hydro's outstanding shares, valued at the price at Oslo Børs (Oslo Stock Exchange) as of the end of trading Friday February 25, the latest market observation prior to completion of the transaction. In addition, the consideration includes the deferred payment for the remaining 40 percent in Paragominas described above and certain contingent compensation arrangements. Vale has given certain representations and warranties primarily related to tax issues which result in recognition of indemnification assets of approximately NOK 150 million. The fair value of Hydro's previous ownership interests in Alunorte and CAP is part of the initial recognition of the acquired entities. A remeasurement gain of NOK 4,222 million was recognized in Other income, net.

The values of assets acquired and liabilities assumed are included in the table below:

Amounts in NOK million	
Cash and cash equivalents	347
Short-term investments	188
Receivables	1 297
Other current assets	389
Inventories	2 177
Total current assets	4 398
Property, plant and equipment	43 439
Other non-current assets	4 950
Intangible assets excluding goodwill	3 043
Goodwill	3 499
Total non-current assets	54 930
Bank loans and other interst bearing short-term debt	2 086
Other current liabilities	1 732
Total current liabilities	3 818
Long-term debt	4 818
Other long-term liabilities	1 998
Deferred tax liabilities	5 341
Total non-current liabilities	12 157
Minority interests	6 470
Fair value of Hydro's interests as of the business combination	36 883

The majority of receivables were towards shareholders related to their right and obligation to purchase products from the entities. Receivables have been collected.

Hydro has elected to utilize the option to measure non-controlling interests (minority interests) at their proportionate share of the acquiree's identifiable net assets. Minority interests are recognized with NOK 4,154 million related to the 49 percent minority in Albras, with NOK 2,200 million related to the 9 percent minority in Alunorte and with NOK 116 million related to the 19 percent minority in CAP. Goodwill is measured at NOK 3,499 million. Goodwill is allocated to one cash generating unit in Bauxite & Alumina. The main reasons for identification of goodwill are synergies in the common location of plants and mine and the difference between nominal value and fair value of deferred tax. No amount of goodwill is expected to be deductible for tax purposes.

Hydro had existing contracts and balances with Vale Aluminium, primarily an off-take arrangement for alumina as part of the equity investment in Alunorte including related payables, receivables and loans. In addition, the acquiree held certain long-term sales contracts with Hydro. The fair value of the contracts has been determined to be a liability for the acquiree because the contract terms were below market value at the time of acquisition. The difference was accounted for as settlement of a pre-existing relationship resulting in a credit to Other income, net, of NOK 267 million. In addition, an existing loan to Alunorte at below market interest was accounted for as settlement of a pre-existing loan resulting in a charge of NOK 68 million included in Other income, net. These amounts have been excluded from the purchase price and purchase accounting.

Acquisition related costs incurred during 2011 were approximately NOK 20 million, in total for the transaction approximately NOK 90 million, included in operating costs.

Results of the acquired businesses are included in Hydro's consolidated income statement as of February 28, 2011. The acquired businesses are an integral part of Hydro's operations and are not reported separately. The acquired businesses contributed about NOK 11,500 million to the group's revenue in the period after acquisition, and about NOK 330 million to EBIT.

The following information represents unaudited pro forma financial information as if the acquisition was completed as of the beginning of 2011 based on Hydro's actual financial statements as of December 31, 2011. As Vale Aluminium has not been incorporated or reported as a separate reporting entity, separate financial information does not exist for the acquired entities. This pro forma financial information is, for the period prior to the acquisition, based on financial information for the separate entities acquired, and carve-out condensed financial information derived from Vale's financial reporting records, provided by Vale for illustrative purposes. The financial information for Vale Aluminium has been translated to NOK using the average exchange rate for the period. Pro forma information is based on actual transactions completed by Hydro and Vale, which may have been different had the acquisition been completed at an earlier time. Pro forma information has been prepared for information purposes only, and is not intended to indicate what the results of operations would have been if the transaction had occurred at the beginning of 2011.

Amounts in NOK million	2011
Revenue	93 121
Earnings before financial items and tax (EBIT)	5 576
Net income	2 519
Net income attributable to minority interests	76
Net income attributable to Hydro shareholders	2 444

Hydro issued an Information Memorandum dated June 2, 2010 describing the acquisition, and a Prospectus dated June 21, 2010 for the rights issue in July 2010 and the private placement to Vale in connection with the agreement for sale and contribution of Vale Aluminium. Both documents contain more detailed information about the transactions, and are available at www.hydro.com.

Hydro has not entered into any other significant business combinations during 2011 or 2010.

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 market risk strategy is materially unchanged in 2011 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. 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 prices when entering into customer and supplier contracts with corresponding physical or derivative future contracts at fixed prices (back-to-back hedging). The majority of these contracts mature within one year. Hydro manages these risk management activities on a portfolio basis, taking external 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 transactions normally are not marked-to-market, except for those included in trading portfolios.

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.

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 bifurcated 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 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, Australian dollar and Canadian dollar. With the acquisition of Vale Aluminium Hydro's exposure to Brazilian Real fluctuations has increased significantly as a large share of the local production cost is denominated in Brazilian Real.

Hydro's primary underlying foreign currency risk is 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. The relationship between the primary aluminium price development and the currencies in which major costs are incurred acts as an additional natural protection to a certain extent. To reduce the effects of fluctuations in the US 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.

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. Hydro's interest rate exposure has increased with the US dollar debt incurred as part of the Vale Aluminium acquisition. Cash and other liquid resources are currently mainly held in Norwegian Krone and US dollars, whereas debt is mainly US dollar denominated. The corresponding interest rate exposures are consequently related to Norwegian Krone and US dollar short-term rates.

Hydro has an exposure to interest rate fluctuations on part of the debt in its equity accounted investments. This is mainly related to US dollar denominated debt in Qatalum. See note 35 Capital management for additional information.

The fair value of interest rate derivatives as of December 31, 2011 and 2010 is immaterial and not presented here.

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, 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. 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, 2011 and December 31, 2010, 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	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)	-

		Gain/loss from 10 percent increase in						
	Fair value as of							
	December 31,	Foreign currency exchange rates			Commodity prices		Interest	
Amounts in NOK million	2010 [1]	USD	EUR	Other	Aluminium	Other	rates	Other
Derivative financial instruments [2]	11	86	(29)	-	-	-	-	-
Other financial instruments [3]	19 564	727	347	58	-	-	(14)	38
Derivative commodity instruments [4]	(2 156)	(558)	(12)	(1)	(905)	(294)	42	(29)
Financial instruments directly to equity [5]	1 455	108	2	1	(276)	-	(87)	-

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 commodity 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 fluctuation business volumes and inventory levels can have a substantial effect on Hydro's cash positions and borrowing requirements.

To fund cash deficits of a more permanent nature Hydro will normally raise long-term bond or bank debt in available markets. Hydro has entered into agreements with banks for a stand-by credit facility of USD 1.7 billion maturing in 2014. This facility was undrawn at year-end 2011. A revolving EUR 750 million credit facility maturing in 2012 was canceled in 2011.

Hydro has obtained bank guarantees to cover daily settlements for 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, 2011		December 31, 2010	
Amounts in NOK million	Liabilities	Assets	Liabilities	Assets
2011			(3 680)	3 849
2012	(711)	741	(92)	281
2013	(52)	63	-	38
2014	-	2	-	11
Total	(763)	806	(3 772)	4 179

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.

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.

Extruded Products includes Hydro's extrusion-based businesses. The main products are aluminium extrusion and semi-fabricated products for the building and construction, transportation and engineered products industrial sectors.

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 investments in the Solar Industry, its captive insurance company Industriforsikring, Hydro's industry parks, internal service providers and certain other activities.

Hydro's segment structure was changed as of February 28, 2011. The financial information in this report is restated to reflect the current segment structure.

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 2011	External revenue 2010	Internal revenue 2011	Internal revenue 2010	Total revenue 2011	Total revenue 2010
Bauxite & Alumina	**8 595**	3 364	**5 876**	4 518	**14 471**	7 882
Primary Metal	**4 462**	1 603	**30 258**	25 988	**34 720**	27 592
Metal Markets	**33 363**	27 090	**15 362**	15 911	**48 725**	43 001
Rolled Products	**21 392**	20 611	**(95)**	569	**21 297**	21 180
Extruded Products	**19 944**	19 225	**140**	180	**20 085**	19 405
Energy	**3 424**	3 448	**2 969**	3 607	**6 393**	7 055
Other and eliminations [1)]	**264**	414	**(54 510)**	(50 774)	**(54 246)**	(50 360)
Total	**91 444**	75 754	**-**	-	**91 444**	75 754

Amounts in NOK million	Other income, net 2011	Other income, net 2010	Share of the profit (loss) in equity accounted investments [2)] 2011	Share of the profit (loss) in equity accounted investments [2)] 2010	Depreciation, amortization and impairment [3)] 2011	Depreciation, amortization and impairment [3)] 2010
Bauxite & Alumina	**4 903**	-	**6**	177	**1 580**	2
Primary Metal	**43**	40	**13**	(574)	**3 136**	1 737
Metal Markets	**3**	10	**-**	(4)	**101**	106
Rolled Products	**10**	47	**(76)**	(64)	**399**	398
Extruded Products	**75**	24	**16**	13	**742**	571
Energy	**659**	-	**15**	29	**132**	118
Other and eliminations	**529**	448	**(235)**	(182)	**69**	52
Total	**6 222**	568	**(260)**	(606)	**6 158**	2 985

Amounts in NOK million	Earnings before financial items and tax (EBIT) [4)] 2011	Earnings before financial items and tax (EBIT) [4)] 2010	EBITDA 2011	EBITDA 2010
Bauxite & Alumina	**5 846**	847	**7 438**	875
Primary Metal	**1 265**	615	**4 421**	2 372
Metal Markets	**457**	160	**557**	266
Rolled Products	**66**	1 214	**519**	1 668
Extruded Products	**(240)**	426	**501**	997
Energy	**2 550**	1 438	**2 685**	1 561
Other and eliminations [1)]	**(116)**	(1 514)	**109**	(1 395)
Total	**9 827**	3 184	**16 231**	6 343

Amounts in NOK million	Current assets [5)] 2011	Current assets [5)] 2010	Non-current assets 2011	Non-current assets 2010	Total assets [5)] 2011	Total assets [5)] 2010
Bauxite & Alumina	**5 292**	1 343	**43 603**	7 372	**48 895**	8 714
Primary Metal	**9 005**	9 218	**33 133**	24 306	**42 138**	33 524
Metal Markets	**6 915**	7 460	**1 165**	1 402	**8 079**	8 861
Rolled Products	**7 424**	7 692	**4 636**	4 807	**12 059**	12 500
Extruded Products	**5 844**	5 556	**4 653**	5 120	**10 497**	10 677
Energy	**1 015**	1 244	**5 420**	5 875	**6 436**	7 120
Other and eliminations	**2 691**	4 304	**1 758**	3 088	**4 449**	7 393
Total	**38 185**	36 817	**94 368**	51 971	**132 554**	88 788

Amounts in NOK million	Investments accounted for using the equity method 2) 6) 2011	2010	Segment debt 7) 2011	2010	Investments 8) 2011	2010
Bauxite & Alumina	**-**	5 757	**2 669**	1 134	**36 865**	65
Primary Metal	**9 997**	9 786	**3 167**	4 230	**9 505**	4 900
Metal Markets	**22**	21	**5 242**	5 698	**103**	148
Rolled Products	**1 152**	1 242	**2 869**	2 904	**435**	296
Extruded Products	**40**	33	**3 401**	3 761	**515**	434
Energy	**50**	385	**990**	1 038	**564**	284
Other and eliminations	**181**	1 425	**(3 932)**	(5 795)	**39**	105
Total	**11 442**	18 649	**14 406**	12 971	**48 025**	6 231

Amounts in NOK million	Total assets 2011	2010	Non-current assets 2011	2010	Investments 8) 2011	2010
Norway	**33 466**	39 336	**16 749**	18 127	**1 177**	1 164
Germany	**11 967**	11 677	**5 048**	5 124	**393**	265
Italy	**1 610**	1 743	**407**	520	**44**	35
Slovakia	**1 842**	1 938	**1 127**	1 179	**54**	51
Spain	**1 260**	1 608	**567**	915	**31**	40
France	**1 597**	1 551	**655**	660	**87**	112
Denmark	**632**	628	**237**	260	**29**	22
Great Britain	**648**	561	**264**	237	**24**	11
Austria	**427**	420	**194**	172	**32**	29
Other	**1 857**	1 860	**1 240**	1 181	**128**	31
Total EU	**21 840**	21 986	**9 739**	10 248	**822**	596
Other Europe	**1 302**	150	**366**	8	**4**	5
Total Europe	**56 608**	61 472	**26 853**	28 383	**2 003**	1 765
USA	**2 422**	2 450	**1 230**	1 293	**93**	77
Canada	**1 926**	1 952	**1 670**	1 706	**89**	166
Brazil	**58 008**	8 903	**53 118**	8 551	**45 050**	72
Other Americas	**232**	155	**117**	57	**18**	11
Qatar	**8 852**	8 614	**8 852**	8 614	**306**	3 529
Other Asia	**1 516**	1 474	**471**	448	**45**	160
Australia and New Zealand	**2 984**	3 764	**2 057**	2 918	**424**	453
Africa	**6**	6	**-**	1	**-**	-
Total outside Europe	**75 946**	27 316	**67 515**	23 588	**46 024**	4 467
Total	**132 554**	88 788	**94 368**	51 971	**48 025**	6 231

1) Other and eliminations include elimination of unrealized gains and losses on power contracts between Energy and other units in Hydro with a gain of NOK 370 million in 2011 and a loss of NOK 637 million in 2010.

2) Share of the profit (loss) in equity accounted investments includes impairment write-downs in the solar activities of NOK 157 million in 2011 and NOK 66 million in 2010.

3) Impairment write-downs for Property, Plant and Equipment by segment are presented in note 13 Impairment of non-current assets.

4) 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.

5) Current assets and total assets exclude internal cash accounts and accounts receivables related to group relief.

6) Investments accounted for using the equity method comprises investments and advances, see note 25 Investments in associates and note 26 Investments in jointly controlled entities.

7) Segment debt is defined as short-term interest free liabilities excluding income tax payable.

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

Amounts in NOK million	Revenue 2011	Revenue 2010
Norway	**4 739**	4 840
Germany	**14 003**	12 740
Great Britain	**5 103**	3 567
Italy	**4 990**	5 297
France	**4 823**	4 514
Spain	**3 279**	3 865
Poland	**2 372**	1 961
The Netherlands	**1 914**	1 693
Austria	**1 887**	1 489
Other	**7 707**	7 627
Total EU	**46 078**	42 754
Switzerland	**8 491**	4 070
Other Europe	**3 135**	3 447
Total Europe	**62 442**	55 110
USA	**8 102**	6 592
Canada	**309**	34
Other Americas	**3 087**	2 097
Asia	**15 935**	10 489
Australia and New Zealand	**1 140**	1 144
Africa	**429**	288
Total outside Europe	**29 002**	20 644
Total	**91 444**	75 754

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.

Note 8 - Other income

Amounts in NOK million	2011	2010
Gain on sale of property, plant and equipment	**89**	40
Gain on previous ownership interests in acquired subsidiaries 1)	**4 222**	-
Gain on sale of subsidiaries, associates and jointly controlled entities 2)	**1 134**	-
Revenue from utilities 3)	**131**	165
Rental revenue	**316**	271
Other 4)	**330**	93
Other income, net	**6 222**	568

1) Remeasurment gain on the previous ownership interests in Alunorte and CAP. See note 5 Acquisitions for further information.

2) Includes sale of Alpart alumina refinery in Jamaica and the Norwegian power production company SKS Produksjon AS.

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

4) Other includes government grants, royalties, insurance compensation and settlements of pre-existing relationships in acquired entities, see note 5 Acquisitions.

Note 9 - Raw material and energy expense

Amounts in NOK million	**2011**	2010
Raw material expense and production supplies	**55 807**	49 555
Change in inventories own production	**(135)**	(921)
Write-downs of inventories	**172**	74
Reversals of write-downs of inventory	**(19)**	(15)
Raw material and energy expense	**55 825**	48 694

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 relating directly to 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 2012. The Board of Directors proposes that the guidelines set forth below shall apply for 2012 and up until the annual shareholders' meeting in 2013.

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 labor markets, while at the same time reflecting Hydro's international focus.

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 annual bonus shall reflect achievements in relation to pre-defined financial targets, key performance indicators (KPIs) and compliance with and the promotion of Hydro's core values ("The Hydro Way"). The bonus parameters, which are both balanced and ambitious, relate to financial and operational business targets, as well as to individual leadership expectations. Bonus payments to the CEO and the other members of the Corporate Management Board are dependent on Hydro's posting of positive underlying earnings before interest and tax (EBIT), together with delivery of operational goals within pre-defined budgetary frameworks. The Board of Directors is concerned to ensure that bonus parameters are balanced and reflect the varied nature of Hydro's operations. Bonus parameters will typically relate to organizational and operational targets and improvements, as well as health, safety and environment (HSE) and corporate social responsibility (CSR). The targets are established as part of the annual business-planning process. 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. 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's posting of positive underlying earnings before interest and tax (EBIT) for the previous financial year. Recipients of LTI payments are required to invest the net amount received after tax in Hydro shares. Any such shares must be held for three years. Any holder of such shares who voluntarily terminates his or her employment during such three-year period must pay to the company an amount equal to the after-tax value of the shares at the date of such termination. The LTI arrangement is re-evaluated annually. LTI payments are not taken into account when determining the basis for pensionable salary.

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

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

Pensions During 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. In connection with the establishment of the new pension system, approximately 20 percent of existing employees transferred to the defined contribution plan. The plan also involves the allocation of 20 percent of the basic salary in excess of 12G (where "G" is the National Insurance basic amount) as a vested right. This defined contribution company pension plan for salaries in excess of 12G will be continued.

The CEO and other members of the Corporate Management Board are members of Hydro's defined benefit pension plan. The CEO is entitled to retire on a pension after reaching the age of 62. The Board of Directors may also require the CEO to do so. Full pension entitlement is earned after 30 years' employment at Hydro. 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").

Corresponding pension arrangements were put in place during 2010 in respect of the 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 pension plan does not apply to persons who are entitled to retire before reaching the age of 62 under a previous agreement. During 2012 the company will consider whether to make changes to the current early retirement arrangements.

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 involuntarily 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. 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 future appointments to the Corporate Management Board, the company will endeavor to enter into advance agreements to the effect that 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 2011 was based in essence on the same guidelines as those described above.

In June 2011, the Board of Directors decided to increase the CEO's base salary by 3.5 percent, from NOK 5.15 million to NOK 5.33 million, with effect from January 1, 2011. In connection with the completion of the Vale transaction, the board further increased the CEO's base salary by 3.3 percent to NOK 5.5 million with effect from March 1, 2011 in order to reflect the increased complexity and responsibility of his position. For the same reason the base salary for the CFO and EVP Corporate staffs was adjusted by 5.6 percent and 6.8 percent, respectively from the same date.

The base salary of the other members of the Corporate Management Board (excluding CEO) increased in the annual salary adjustment by between 3.0 percent and 4.0 percent in 2011, with an average increase of 3.6 percent.

Bonus payments for 2010 were determined and paid in 2011 on the basis of the principles described above (see also note 11 Employee and management remuneration).

Bonus payments for 2011 will be determined and paid in 2012 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 for 2010 paid in 2011, share based long term incentive for 2010 settled in 2011, and the estimated increase in the value of their pension benefits for 2011, as well as any loans outstanding and Hydro share ownership as of December 31, 2011 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the corporate management board members during 2011.

Name	Base salary 1) 2)	Maximum bonus potential 1) 2)	Remuneration paid in 2011 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)
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 2011.

2) Base salary is per December 31, 2011. Maximum bonus potential is for 2011. Bonus, if any, will be paid in 2012.

3) Salary is the amount paid to the individual during 2011, and includes vacation pay. Remuneration-in-kind is the total of all non-cash related benefits received by the individual during 2011 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 2011 based on performance achieved and bonus potential for 2010, 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 Projected Benefit Obligations (PBO) 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, 2011 to December 31, 2011.

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. The loans to Svein Richard Brandtzæg have interest rates of 3.75 and 3.9 percent and repayment periods of six and eight years. The loan to Wenche Agerup has an interest rate of 7.25 percent and a repayment period of two years. Payments have been made in a timely fashion and the loans are not in default.

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, 2011.

Under the long term incentive for 2010 settled in 2011, former corporate management board members Ola Sæter and Odd Ivar Biller received 3,741 and 2,222 shares with a gross (pre-tax) value of NOK 338 thousand and NOK 196 thousand, respectively.

Effective March 30, 2009, Eivind Reiten stepped down as President and CEO, and left Hydro. He has a termination agreement with right to certain benefits (excluding bonus) for a three-year period, beginning March 30, 2009. In 2011, Reiten received a total remuneration of NOK 6,404 thousand. The estimated change in value of his pension benefits increased by NOK 3,392 thousand.

United Kingdom employee share-based compensation

In 1988, Hydro established a stock option share purchase program for employees in the United Kingdom. The stock option purchase program is organized in an independent trust. The trust acquired shares in the market at the time the options were granted. The last options were granted in July 2002 and the program will be operational until July 2012, when the last remaining options expire. No further options will be granted.

Each year the employees were given the option to acquire a limited number of shares at a fixed price during a period from the third to the tenth year from the grant date. The exercise price of the options originally equaled the share price at the time the options were granted. On October 1, 2007, in connection with the demerger of Hydro's oil and gas business to Statoil, the value of the options was reduced. The options remain options over Hydro shares only and do not give an option to purchase the Statoil shares which were issued for each Hydro share to the trust.

At January 1, 2010, 19,813 options were outstanding and the trust's balance of shares was 407,908 Hydro shares and 271,768 Statoil shares. During 2010 no options were exercised and 3,860 options expired. As of December 31, 2010 the trust's balance of Hydro shares was 423,813 and of Statoil shares was 271,687. There were 15,953 options outstanding as of December 31, 2010, with an average strike price equivalent to NOK 56.34 per share.

During 2011 no options were exercised and 4,060 options expired. As of December 31, 2011 the trust's balance of Hydro shares was 423,813 and 271,687 Statoil shares. There were 11,893 options outstanding as of December 31, 2011, with an average strike price equivalent to NOK 58.89 per share.

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. Under the plan offered in 2011, eligible Hydro employees received a NOK 2,500 share-purchase rebate to purchase NOK 10,000 of shares of Norsk Hydro ASA, which corresponds to a 25 percent discount from the market price, as shareholder return did not exceed 12 percent in the period from January 1 to December 31, 2010 (the performance measurement period).

In the performance period January 1 to December 31, 2011 shareholder return did not exceed 12 percent. Therefore, under the plan to be offered in 2012, employees will receive a rebate of NOK 2,500 on their purchase of NOK 10,000 of Norsk Hydro ASA shares. The rebate of NOK 2,500 corresponds to a 25 percent discount from the market price.

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 2010 performance measurement period was accrued and recognized over the service period of December 31, 2010 through April 1, 2011, the final acceptance date of the offer. In 2011 and 2010 the participation rates of eligible employees in the employee share purchase plan were 82 and 88 percent, respectively. Details related to the employee share purchase plan are given in the table below.

Employee share purchase plan **Performance measurement period**	2011	2010	2009
Total shareholder return performance target achieved	<12%	<12%	≥12%
Employee rebate, NOK	2 500	2 500	10 000
Employee rebate, percent	25%	25%	50%

Share purchase plan compensation	**2011**	2010
Award share price, NOK	**46.01**	41.14
Number of shares issued, per employee	**217**	486
Total number of shares issued to employees	**759 283**	1 937 196
Compensation expense related to the award, NOK thousand	**8 734**	39 848

Employee benefit expense

The average number of employees for 2011 and 2010 was 22,463 and 19,008, respectively. As of year end 2011 and 2010 Hydro employed 22,655 and 18,894 people, respectively. The specification of employee benefit expenses for 2011 and 2010 is given in the table below.

Employee benefit expense

Amounts in NOK million	**2011**	2010
Salary	**8 901**	8 165
Social security costs	**1 331**	1 323
Other benefits	**312**	208
Net periodic pension cost (note 32)	**660**	586
Total	**11 202**	10 282

Note 12 - Depreciation and amortization expense

Specification of depreciation and amortization by asset category

Amounts in NOK million	2011	2010
Buildings	**686**	429
Machinery and equipment	**4 077**	2 393
Intangible assets	**164**	131
Depreciation and amortization expense	**4 928**	2 952

Note 13 - Impairment of non-current assets

Amounts in NOK million	2011	2010
Classification by asset category		
Impairment losses		
Property, plant and equipment	**1 153**	32
Intangible assets	**78**	-
Total impairment of non-current assets	**1 231**	32
Classification by segment		
Impairment losses		
Primary Metal	**970**	3
Extruded Products	**235**	29
Energy	**21**	-
Other activities	**5**	-
Total impairment of non-current assets	**1 231**	32

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 the business planning process. Impairment losses have been recognized where the recoverable amount is less than the carrying value.

In Primary Metal all plants have been assessed for impairment indicators following the decline in aluminium prices and lower economic activity. Impairment indicators were identified for two CGUs in 2011. Key assumptions in testing for impairment included aluminium prices, energy prices, fixed and variable costs and currency exchange rates. Prices were estimated based on existing contracts, observed markets prices, together with Hydro's best estimate of future economic conditions covering the remaining useful life of the assets. Test results are highly sensitive to these assumptions. The VIU for Hydro's Kurri Kurri plant in Australia was estimated using a pre-tax discount rate of 11 percent. The plant was written down by NOK 970 million. The recoverable amount of the other plant tested was above its carrying value.

Weak markets in particular in Building Systems in southern Europe were considered impairment indicators for five CGUs in Extruded Products. Two CGUs, the building systems operations in Spain and Italy, were concluded to be impaired and written down by in total NOK 235 million. The volumes and margins have declined significantly over the later years, and are now on historic low levels. The impairment tests for these CGUs assume continued low levels for the first two years, then a slight increase in volumes and margins, however, not reaching pre crisis levels.

For Metal Markets and Rolled Products impairment indicators were noted for two small CGUs with weak performance. The test results concluded with recoverable amounts marginally higher than carrying value.

Goodwill and intangible assets with indefinite life are required to be tested annually, in addition to any tests required when impairment indicators are determined to be present. Hydro has elected to do the annual impairment test of goodwill in the fourth quarter.

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

Amounts in NOK million	**2011**	2010
Alumina production Brazil (Bauxite & Alumina)	**3 310**	-
Remelters sector (Metal Markets)	**244**	238
Extrusion Eurasia sector	**326**	325
Building Systems sector	**230**	228
Extrusion North America sector	**79**	77
Extrusion South America sector	**74**	78
Precision Tubing sector	**38**	39
Total Extruded Products	**747**	747
Total goodwill	**4 301**	985

For Metal Markets and Extruded Products, impairment tests on goodwill have 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. See note 4 Critical accounting judgment and key sources of estimation uncertainty for additional information about impairment testing. Goodwill in Bauxite and Alumina Brazil was recognized as part of the acquisition of Vale Aluminium in 2011, see note 5 Acquisitions.

Note 14 - Research and development

Total expensed research and development cost was NOK 508 million in 2011 and NOK 543 million in 2010. 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 development, extrusion, precision tubing, building systems 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:

Amounts in NOK million	Less than 1 year	1-5 years	Thereafter	Total
Operating lease obligation 2011	513	1 644	3 724	5 881
Operating lease obligation 2010	437	1 202	1 365	3 003

Operating lease expense for office space, machinery and equipment amounts to NOK 552 million for 2011 and NOK 552 million for 2010.

Note 16 - Financial income and expense

Amounts in NOK million	**2011**	2010
Interest income	**263**	201
Net gain (loss) on securities	**(60)**	121
Dividends received	**7**	23
Financial income	**209**	346
Interest expense	**(367)**	(253)
Capitalized interest	**1**	5
Net foreign exchange gain (loss)	**(971)**	513
Accretion expense	**(176)**	(35)
Other	**15**	(54)
Financial expense	**(1 498)**	176
Financial income (expense), net	**(1 288)**	**522**

Note 17 - Income tax expense

Amounts in NOK million	**2011**	2010
Income (loss) before taxes		
Norway	**4 107**	1 803
Other countries	**4 432**	1 902
Total	**8 539**	3 706
Current taxes		
Norway	**1 256**	1 198
Other countries	**637**	455
Current income tax expense	**1 892**	1 652
Deferred taxes		
Norway	**385**	(264)
Other countries	**(488)**	199
Deferred tax expense (benefit)	**(103)**	(64)
Total income tax expense (benefit)	**1 790**	1 588

Components of deferred taxes

Origination and reversal of temporary differences	**(416)**	(78)
Benefit tax loss carryforwards	**(187)**	(28)
Net change in unrecognized deferred tax assets	**632**	2
Tax expense (benefit) allocated to Other components of equity	**(132)**	39
Deferred tax expense (benefit)	**(103)**	(64)

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

Amounts in NOK million	2011	2010
Expected income taxes at statutory tax rate [1)]	**2 391**	1 038
Hydro-electric power surtax [2)]	**584**	447
Equity accounted investments	**73**	170
Foreign tax rate differences	**(389)**	(41)
Tax free income	**(1 622)**	(135)
Losses, other tax benefits and deductions with no tax benefits, net	**753**	110
Income tax expense (benefit)	**1 790**	1 588
Effective tax rate	**21.0%**	42.9%

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	2011	2010
Equity securities	**845**	860
Debt securities	**456**	462
Other	**479**	-
Total short-term investments	**1 780**	1 321

Note 19 - Accounts receivable

Amounts in NOK million	2011	2010
Trade receivables	**10 749**	10 663
Allowance for credit losses	**(392)**	(452)
VAT receivables	**880**	825
Other receivables	**1 980**	1 747
Accounts receivable	**13 217**	12 783

Note 20 - Inventories

Amounts in NOK million	2011	2010
Raw materials	**6 103**	4 097
Work in progress	**3 002**	2 307
Finished goods	**5 052**	4 567
Inventories	**14 157**	10 971

Raw materials include spare parts with a minor amount. All amounts are net of any write-downs. The total of write-downs included is NOK 273 million in 2011 and NOK 121 million in 2010.

Note 21 - Other non-current assets

Amounts in NOK million	**2011**	2010
Non-marketable equity securities	**1 052**	1 509
Employee loans	**222**	237
Currency derivative instruments	**28**	60
Commodity derivative instruments	**422**	386
Prepaid taxes	**4 090**	-
Other financial assets	**1 535**	1 199
Other non-current assets	**7 348**	3 391

Note 22 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
Cost					
December 31, 2009	982	15 633	42 269	1 092	59 975
Additions	1	155	1 234	956	2 345
Disposals	(4)	(48)	(781)	(2)	(835)
Transfers	-	272	782	(1 054)	-
Foreign currency translation effect	(46)	(141)	(537)	(8)	(731)
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
Accumulated depreciation and impairment					
December 31, 2009	(1)	(7 930)	(26 393)	(4)	(34 328)
Depreciation for the year	-	(429)	(2 393)	-	(2 821)
Impairment losses	-	(2)	(28)	(3)	(32)
Disposals	-	47	725	-	772
Transfers	-	(30)	30	-	-
Foreign currency translation effect	-	85	418	1	505
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)
Carrying value					
December 31, 2010	932	7 612	15 327	978	24 849
December 31, 2011	922	13 019	46 252	3 999	64 192

Note 23 - Intangible assets

Amounts in NOK million	Intangible assets under development	Capitalized software systems	Mineral rights	Other intangible assets	Total
Cost					
December 31, 2009	158	1 029	-	1 485	2 672
Additions	121	19	-	88	229
Disposals	-	(3)	-	(73)	(77)
Transfers	(222)	222	-	-	-
Foreign currency translation effect	(1)	(39)	-	(49)	(89)
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
Accumulated amortization and impairment					
December 31, 2009	-	(766)	-	(1 018)	(1 784)
Amortization for the year	-	(72)	-	(59)	(131)
Disposals	-	8	-	40	48
Foreign currency translation effect	-	33	-	34	67
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)
Carrying value					
December 31, 2010	55	431	-	448	934
December 31, 2011	84	438	1 067	2 040	3 629

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, 2009	-	236	756	992
Foreign currency translation effect	-	2	(8)	(7)
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
Carrying value				
December 31, 2010	-	238	747	985
December 31, 2011	3 310	244	747	4 301

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, 2009	6 276	573	345	180	174	209	7 757
Investments (sale), net				37	7	50	94
Change in long-term advances, net		30				(6)	24
Hydro's share of net income (loss)	206	13	36	(39)	(52)	7	171
Amortization	(19)	(16)	(5)		(3)	(3)	(47)
Impairment losses				(58)			(58)
Dividends and other payments received by Hydro	(69)		(24)				(93)
Foreign currency translation and other	329	(34)	(13)		9	8	298
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

Change in elimination of internal profit in inventory on goods sold from associates to Hydro amounted to a loss of NOK 13 million and NOK 1 million in 2011 and 2010, respectively.

Specification of associates

Amounts in NOK million, except ownership	Percentage owned by Hydro at year end **2011**	Investments in and advances to associates **2011**	2010	Hydro's current trade receivable (payable), net with associates **2011**	2010
Alunorte	**-**	**-**	6 724	**-**	(370)
Aluchemie	**36.2 %**	**569**	565	**-**	-
SKS Produksjon	**-**	**-**	338	**-**	-
NorSun	**17.4 %**	**-**	120	**-**	-
Ascent Solar	**20.5 %**	**29**	135	**-**	-
Others		**133**	265	**-**	-
Total		**732**	8 148	**-**	(370)

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

Alumina do Norte do Brasil S.A. (Alunorte) is an alumina refinery located in Brazil. Before Hydro's acquisition of Vale Aluminium on February 28, 2011, Hydro's ownership share was 34 percent. Vale S.A. owned 57 percent of the shares in Alunorte increasing Hydro's ownership interest to 91 percent following the acquisition, see note 5 Acquisitions.

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 824 million in 2011 and NOK 580 million in 2010 based on a cost plus formula. Sales of anode butts and coke from Hydro to Aluchemie amounted to NOK 120 million in 2011 and NOK 77 million in 2010. 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.

SKS Produksjon AS (SKS Produksjon) is a power producer located in Northern Norway. SKS Produksjon AS was sold in 2011.

NorSun AS (NorSun) is produces mono crystalline wafers for the photovoltaic industry. Hydro's owns 17.4 percent of NorSun. Significant influence is obtained through representation in the board of directors as agreed in the shareholders' agreement. Other major shareholders are Scatec (19 percent) and Good Energies (22 percent). In 2011 and 2010 the investment in NorSun was tested for impairment, resulting in an impairment loss of NOK 116 million in 2011 and 58 million in 2010. NorSun is part of Other.

Ascent Solar Technologies Inc. (Ascent) develops thin-film photovoltaic modules and is located in Denver, Colorado in the US. In 2011 Hydro agreed to divest its stake in Ascent for a cash consideration of about NOK 24 million. The transaction is expected to be completed in the first quarter of 2012. Ascent is part of Other.

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

Amounts in NOK million (unaudited)	**2011**	2010
Income statement data [1]		
Revenues	**4 882**	12 525
Earnings before financial items and tax	**(428)**	955
Income before tax	**(513)**	1 048
Net income	**(688)**	504
Balance sheet data		
Current assets	**1 257**	4 748
Non-current assets	**3 623**	25 014
Assets	**4 880**	29 762
Current liabilites	**973**	3 337
Non-current liabilities	**1 513**	5 986
Equity	**2 394**	20 439
Liabilites and equity	**4 880**	29 762

1) Income statement data for Alumina do Norte do Brasil S.A. and SKS Produksjon AS is included for the period until derecognition.

Note 26 - Investments in jointly controlled entities

Amounts in NOK million	Alunorf	Søral	Qatalum	Alpart	Other	Total
December 31, 2009	1 410	584	5 879	(65)	156	7 964
Investments (sale), net			4 060	7	(5)	4 062
Change in long-term advances, net	(14)		(531)			(545)
Hydro's share of net income (loss)	(12)	63	(628)	(2)	(28)	(606)
Amortization	(56)				1	(55)
Impairment losses				(7)	(8)	(15)
Dividends and other payments received by Hydro	(6)				(9)	(15)
Foreign currency translation and other	(80)		(206)	(1)	(2)	(289)
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

Change in elimination of internal profit in inventory on goods sold from jointly controlled entities to Hydro amounted to a loss of NOK 15 million in 2011 and a gain of NOK 5 million in 2010. Negative value of investments in jointly controlled entities of NOK 13 million as of December 31, 2011 is included in Other liabilities.

Specification of jointly controlled entities

Amounts in NOK million, except ownership	Percentage owned by Hydro at year end	Investments in and advances to investees		Hydro's current trade receivable (payable), net with investees	
	2011	**2011**	2010	**2011**	2010
Alunorf	**50.0%**	**1 152**	1 241	**(306)**	(224)
Søral	**49.9%**	**631**	647	**(92)**	(89)
Qatalum	**50.0%**	**8 812**	8 574	**(664)**	(267)
Alpart	-	-	(68)	**-**	-
Others		**102**	106	**(4)**	-
Total		**10 697**	10 501	**(1 066)**	(580)

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 1,475 million in 2011 and NOK 1,423 million in 2010. Hydro's capital and financing commitments are regulated in the Joint Venture agreement. Hydro's financing commitment to Alunorf was NOK 159 million as of December 31, 2011. Alunorf is part of Rolled Products.

Sør-Norge Aluminium AS (Søral) is the fourth largest primary aluminium manufacturer in Norway located in Husnes, Hordaland. 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 956 million in 2011 and NOK 942 million in 2010. Sale of alumina and metal from Hydro to Søral amounted to NOK 458 million in 2011 and NOK 604 million in 2010. 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 6,358 million in 2011 and NOK 2,025 million in 2010. Sales from Hydro to Qatalum amounted to NOK 1,192 million in 2011 and NOK 695 million in 2010. Qatalum is part of Primary Metal.

Alumina Partners of Jamaica (Alpart) is an alumina refinery located in Jamaica. Hydro divested its 35 percent interest in 2011.

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)	**2011**	2010
Income statement data		
Revenues	**12 160**	7 705
Earnings before financial items and tax	**213**	(1 164)
Income before tax	**39**	(1 178)
Net income	**3**	(1 207)
Balance sheet data		
Current assets	**7 405**	6 225
Non-current assets	**34 044**	34 503
Assets	**41 449**	40 728
Current liabilites	**1 792**	3 017
Non-current liabilities	**18 516**	17 706
Equity	**21 140**	20 005
Liabilites and equity	**41 449**	40 728

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	**2011**	2010
Property, plant and equipment	**2 362**	2 388
Share of expenses	**1 173**	1 097
Depreciation and amortization	**230**	263
Produced volume (kmt)	**183**	178

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

Amounts in NOK million	**2011**	2010
Bank loans and overdraft facilities	**2 779**	418
Other interest-bearing short-term debt	**416**	440
Current portion of long-term debt	**1 053**	82
Bank loans and other interest-bearing short-term debt	**4 248**	940

Note 29 - Trade and other payables

Amounts in NOK million	**2011**	2010
Accounts payable	**8 736**	7 088
Payroll and value added taxes	**2 023**	1 676
Accrued liabilities and other payables	**1 556**	1 157
Trade and other payables	**12 316**	9 920

Note 30 - Long-term debt

Long-term debt payable in various currencies

Amounts in NOK million	**2011**	2010
USD	**4 340**	289
Other	**4**	55
Total unsecured bank loans	**4 344**	344
Other long-term debt	**898**	66
Outstanding debt	**5 242**	410
Less: Current portion	**(1 052)**	(82)
Total long-term debt	**4 190**	328

Repayments of long-term debt including interest

Amounts in NOK million	Bank loans	Other	Interest	Total
2012	1 029	24	82	1 134
2013	1 029	824	67	1 920
2014	406	18	38	462
2015	440	17	31	487
2016	473	10	22	505
Thereafter	968	5	28	1 001
Total	4 344	898	268	5 510

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, 2011.

Note 31 - Provisions

Amounts in NOK million	**2011** Short-term	Long-term	Total	2010 Short-term	Long-term	Total
Warranties	**53**	**1**	**54**	80	5	84
Exit and disposal activities	**153**	**1**	**154**	123	34	157
Environmental clean-up and asset retirement obligations (ARO)	**134**	**1 699**	**1 833**	162	927	1 090
Medical and other employee benefits	**337**	**452**	**790**	376	468	845
Social security costs on pension	**-**	**644**	**644**	-	644	644
Insurance	**575**	**-**	**575**	902	-	902
Other	**117**	**532**	**650**	115	26	141
Total provisions	**1 369**	**3 331**	**4 700**	1 758	2 104	3 862

The following table includes a specification of changes to provisions for the year ending December 31, 2011 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, 2010	84	157	1 090	845	644	902	141	3 862
Additions through business combinations	-	-	675	-	-	-	543	1 218
Other additions	77	127	44	473	49	-	108	877
Used during the year	(62)	(121)	(74)	(409)	(48)	(319)	(66)	(1 098)
Reversal of unused provisions	(45)	(9)	(12)	(117)	(1)	(9)	(53)	(245)
Accretion expense and effect of change in discount rate	-	-	119	-	-	-	-	119
Foreign currency translation	-	-	(8)	(2)	-	-	(24)	(34)
December 31, 2011	54	154	1 833	790	644	575	650	4 700
Timing of cash outflows								
2012	53	153	134	340	49	575	117	1 421
2013-2016	1	1	963	165	190	-	13	1 333
Thereafter	-	-	737	285	405	-	519	1 946
December 31, 2011	54	154	1 833	790	644	575	650	4 700

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 328 million and NOK 633 million as of December 31, 2011 and 2010, 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 newly acquired Brazilian business, have defined contribution or multiemployer plans. In Norway, Hydro closed its main defined benefit plans as from March 1, 2010 for new employees who became members of the new defined contribution retirement plans. Employees who were members of the defined benefit plans were given a choice to change to the new defined contribution plans as from June 1, 2010, of which approximately 20 percent chose the new plans. A settlement gain was recognized in the accounts in 2010.

Amounts in NOK million	**2011**	2010
Net periodic pension cost		
Defined benefit plans		
Benefits earned during the year, net of participants' contributions	**342**	343
Interest cost on prior period benefit obligation	**740**	818
Expected return on plan assets	**(641)**	(679)
Recognized (gain) loss	**7**	(83)
Past service cost	**10**	14
Curtailment/settlement (gain) loss	**-**	(129)
Net periodic pension cost	**457**	285
Defined contribution plans	**79**	44
Multiemployer plans	**35**	50
Termination benefits and other	**89**	207
Total net periodic pension cost	**660**	586
Change in projected benefit obligation (PBO)		
Projected benefit obligation at beginning of year	**(18 356)**	(17 922)
Benefits earned during the year	**(347)**	(348)
Interest cost on prior period benefit obligation	**(740)**	(818)
Actuarial gain (loss)	**(1 817)**	(1 003)
Plan amendments	**(5)**	(21)
Benefits paid	**844**	845
Curtailment/settlement gain (loss)	**-**	630
Special termination benefits	**(43)**	(1)
Divestments	**-**	7
Foreign currency translation	**(22)**	275
Projected benefit obligation at end of year	**(20 486)**	(18 356)

Change in pension plan assets

Amounts in NOK million	**2011**	2010
Fair value of plan assets at beginning of year	**12 536**	12 234
Actual return on plan assets	**349**	1 045
Company contributions	**166**	132
Plan participants' contributions	**5**	5
Benefits paid	**(525)**	(525)
Settlements	**-**	(308)
Divestments	**-**	(5)
Foreign currency translation	**51**	(41)
Fair value of plan assets at end of year	**12 582**	12 536

Status of pension plans reconciled to balance sheet

Defined benefit plans		
Funded status of the plans at end of year	**(7 904)**	(5 820)
Unrecognized net (gain) loss	**864**	(1 191)
Unrecognized past service cost	**6**	11
Net accrued pension recognized	**(7 033)**	(7 000)
Termination benefits and other	**(470)**	(607)
Total net accrued pension recognized	**(7 503)**	(7 607)
Amounts recognized in the balance sheet consist of		
Prepaid pension	**1 596**	1 481
Accrued pension liabilities	**(9 099)**	(9 088)
Net amount recognized	**(7 503)**	(7 607)

Weighted-average assumptions used to determine net periodic pension cost

Discount rate	**4.1%**	4.8%
Expected return on plan assets	**5.3%**	6.0%
Rate of compensation increase	**2.7%**	3.0%

Weighted-average assumptions used to determine pension obligation at end of year

Discount rate	**3.2%**	4.1%
Rate of compensation increase	**2.5%**	2.7%

Analysis of projected benefit obligation (PBO)

PBO arising from plans that are wholly or partly funded	**(12 983)**	(11 407)
PBO arising from plans that are unfunded	**(7 503)**	(6 949)
Total PBO	**(20 486)**	(18 356)

Weighted-average investment profile plan assets at end of year [1)]	allocation	**2011**	2010
Asset category			
Equity securities	22-31%	**27%**	31%
Debt securities	34-56%	**38%**	34%
Real estate	21%	**21%**	21%
Other	7-14%	**14%**	14%
Total		**100%**	100%

1) Property used by Hydro represents 20 percent of total plan assets at the end of 2011 and 2010.

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 current portfolio of plan assets the expected rate of return on plan assets is determined to be up to three 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.

In Norway, Hydro participates in a pension plan that entitles the majority of its Norwegian 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 employer contributions are included in Multiemployer plans. A previous plan providing early retirement benefits from the age of 62 until the age of 67 years for the same group of employees was closed as of December 31, 2010. Estimated remaining employer contributions to cover the plan deficit have been provided for.

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 2011. The post retirement liability as of December 31, 2011 was NOK 73 million and NOK 83 million in 2010.

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, 2011 and December 31, 2010:

Amounts in NOK million	**Assets 2011**	**Liabilities 2011**	Assets 2010	Liabilities 2010
Marketable securities	**1**	**-**	2	-
Inventory valuation	**166**	**(355)**	125	(321)
Accrued expenses	**1 151**	**(1 256)**	1 277	(1 426)
Unrealized exchange (gains) losses	**2**	**(272)**	20	(264)
Property, plant and equipment	**3 640**	**(8 826)**	3 091	(3 879)
Ground rent surtax	**115**	**-**	137	-
Capitalized interest	**-**	**(51)**	-	(57)
Other non-current assets	**1 096**	**(857)**	239	(316)
Pensions	**1 692**	**(445)**	1 698	(466)
Deferred (gains) losses on sales	**19**	**(58)**	8	(55)
Derivatives	**485**	**(50)**	669	(102)
Cash flow hedges	**-**	**(29)**	-	(8)
Other	**351**	**(264)**	266	(265)
Tax loss carryforwards	**2 071**		1 695	
Subtotal	**10 789**	**(12 463)**	9 227	(7 159)
Of which not recognized as tax asset	**(1 791)**		(1 495)	
Gross deferred tax assets (liabilities)	**8 998**	**(12 463)**	7 732	(7 159)

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

At the end of 2011, Hydro had tax loss carryforwards of NOK 6,651 million, primarily in Brazil, the United States, Spain and Italy. Carry forward amounts expire as follows:

Amounts in NOK million	
2012	53
2013	31
2014	22
2015	121
2016	30
After 2016	2 248
Without expiration	4 146
Total tax loss carryforwards	6 651

Note 34 - Shareholders' equity

Share capital

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
December 31, 2009	1 240 110 211	(35 324 266)	1 204 785 945
Treasury shares reissued to employees		1 937 196	1 937 196
Shares issued	381 053 600		381 053 600
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

The share capital of Norsk Hydro ASA as of December 31, 2011 was NOK 2,271,760,107.04 consisting of 2,068,998,276 ordinary shares at NOK 1.098 per share. The share capital as of December 31, 2010 was NOK 1,780,037,864.48 and the number of ordinary shares was 1,621,163,811.

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. In addition the extraordinary General Meeting on June 21, 2010 authorized a share capital increase of NOK 418,396,852.80 by issuance of 381,053,600 new shares at a price of NOK 26.30 in a rights issue completed on July 16, 2010. Gross proceeds from the rights issue was NOK 10,021,709,680. Share issue cost amounted to NOK 109 million after tax. A significant part of the proceeds were used as remaining part of the consideration for the acquisition of Vale Aluminium. See note 5 Acquisitions for further information.

Treasury shares

The number of treasury shares on December 31, 2011 was 32,539,257. 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, 2011 of NOK 1,084 million was comprised of NOK 36 million share capital and NOK 1,048 million retained earnings.

Earnings per share

Earnings per share is computed using net income attributable to Hydro shareholders and the weighted average number of outstanding shares in each year. The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 1,965,039,601 for the year 2011 and 1,419,052,116 for 2010.

The number of shares for the year 2010 until the rights issue was completed on July 16, 2010 and all previous presented periods were adjusted for the implicit rebate in the subscription price compared to the theoretical ex-rights price at closing on June 24, 2010, i.e. immediately before trading of the subscription rights. The adjustment represented a factor of 1.055 to the number of outstanding shares for all periods.

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 2011 and 2010.

Amounts in NOK million	**2011**	2010
Currency translation differences		
January 1	**(708)**	223
Currency translation differences during the year	**(2 408)**	(928)
Reclassified to Net income on sale of foreign operations	**(856)**	(3)
December 31	**(3 972)**	(708)
Unrealized gain (loss) on securities		
January 1	**304**	282
Unrealized gain (loss) on available-for-sale securities	**(411)**	175
Reclassified to Net income on sale or impairment of available-for-sale securities	**-**	(90)
Tax benefit (expense)	**151**	(63)
December 31	**45**	304
Cash flow hedges - See note 41 Derivative instruments and hedge accounting		
January 1	**15**	73
Period gain (loss) recognized in Other comprehensive income	**185**	(69)
Reclassification of hedging gain (loss) to Net income	**(107)**	(12)
Tax benefit (expense)	**(20)**	23
December 31	**74**	15
Other components of equity in equity accounted investments		
January 1	**(170)**	64
Period gain (loss) recognized in Other comprehensive income	**(291)**	(225)
Reclassified to Net income	**2**	(9)
December 31	**(459)**	(170)
Total other components of equity attributable to Hydro shareholders as of December 31	**(3 856)**	(418)
Total other components of equity attributable to minority interests as of December 31	**(456)**	(140)

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 2011 net cash provided by operations was sufficient to cover operating requirements and capital expenditures excluding acquisitions. Funds raised in the Norwegian commercial paper market and from short-term bank facilities were used to cover short term requirements throughout the year.

Hydro has an ambition to access national and international capital markets as primary sources for external long-term funding. In 2010, Hydro raised NOK 10 billion in a rights issue in connection with the Vale Aluminium acquisition, contributing to liquidity holdings sufficient to cover a related cash payment amounting to USD 1.1 billion in February 2011. Hydro also issued new shares to Vale at closing, representing 22 percent of outstanding shares and assumed US dollar debt as part of the transaction.

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; other obligations which are considered debt-like in nature; and adjustments for the indebtedness of Hydro's equity accounted investments. The adjustments are considered relevant because they affect Hydro's ability to service existing debt and to incur additional debt. See table below for additional information related to the definition and measurement of this ratio.

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 a ratio of 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 non-cash items.

Adjusted net interest-bearing debt, Adjusted equity and Adjusted net interest-bearing debt to Adjusted equity ratio are presented in the following table.

Adjusted net interest-bearing debt to equity

Amounts in NOK million, except ratio	**2011**	2010
Cash and cash equivalents	**8 365**	10 929
Short-term investments	**1 780**	1 321
Bank loans and other interest-bearing short-term debt	**(4 248)**	(940)
Long-term debt	**(4 190)**	(328)
Net interest-bearing debt	**1 708**	10 983
Cash and cash equivalents and short-term investments in captive insurance company [1)]	**(1 329)**	(1 377)
Net pension obligation at fair value, net of expected income tax benefit [2)]	**(6 916)**	(5 607)
Operating lease commitments, net of expected income tax benefit [3)]	**(3 102)**	(1 746)
Net interest-bearing debt equity accounted investments [4)]	**(7 388)**	(7 807)
Short and long-term provisions net of expected income tax benefit, and other liabilites [5)]	**(2 867)**	(872)
Adjusted net interest-bearing debt	**(19 895)**	(6 427)
Total equity	**85 168**	57 443
Net pension liability (asset) not recognized	**(871)**	1 180
Expected income tax liability (benefit)	**261**	(354)
Adjusted equity	**84 558**	58 269
Adjusted net interest-bearing debt / Adjusted equity ratio	**0.24**	0.11

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 1 508 million and NOK 878 million, respectively, for 2011 and 2010. The figure also includes the long-term provision for postretirement medical benefits of NOK 73 million, net of an estimated 30 percent expected tax benefit.

3) Operating lease commitments are discounted using a rate of 3.4 percent and 3.8 percent for 2011 and 2010, respectively. The expected tax benefit on operating lease commitments is estimated at 30 percent.

4) Net interest-bearing debt equity accounted investments is defined as the total of Hydro's relative ownership percentage of each equity accounted investment's short and long-term interest-bearing debt less their cash positions, reduced by total outstanding loans from Hydro to the equity accounted investment. Net interest-bearing debt per individual equity accounted investment is limited to a floor of zero. Currently, the major part of the adjustment is related to Qatalum.

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

Note 36 - Dividends

Hydro's Board of Directors normally proposes a dividend per share in connection with the fourth quarter results that are published in February each year. The Annual General Meeting considers this proposal, normally in May, and the approved dividend is then paid to the shareholders. Dividends are paid once each calendar year; generally occurring in May. For non-Norwegian shareholders, Norwegian withholding tax will be deducted at source in accordance with the applicable Norwegian tax regulations. For additional information related to Hydro's dividend and shareholder policy see note 35 Capital management.

For fiscal year 2011 the Board of Directors has proposed a dividend of NOK 0.75 per share to be paid in May 2012. The Annual General Meeting, scheduled to be held May 8, 2012, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 1,527 million. In accordance with IFRS, the fiscal year 2011 proposed dividend is not recognized as a liability in the 2011 financial statements.

Dividends declared and paid in 2011 and 2010 for the prior fiscal year, respectively, are as follows:

	Paid in 2011 for fiscal year 2010	Paid in 2010 for fiscal year 2009
Dividend per share paid, NOK	**0.75**	0.50
Total dividends paid, NOK million	**1 527**	603
Date proposed	**February 16, 2011**	February 17, 2010
Date approved	**May 5, 2011**	May 4, 2010
Dividend payment date	**May 18, 2011**	May 18, 2010

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

Note 37 - Guarantees

Amounts in NOK million	**2011**	2010
Guarantees related to jointly controlled entities	**7 708**	7 668
Sales guarantees	**3 024**	4 135
Other guarantees	**98**	107
Total guarantees not recognized	**10 830**	11 910

Guarantees related to jointly controlled entities primarily relates to Qatalum. Qatar Petroleum and Hydro have issued a completion guarantee in favor of the lenders on a pro rata but not joint basis. The guarantee covers due and punctual payment of interest and repayments. The guarantee terminates when a set of objective criteria related to the completion of the project has been fulfilled.

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	2012	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	379	285	663
Additional authorized future investments in property, plant and equipment	947	41	988
Contract commitments for other future investments	2	-	2
Total	1 328	326	1 654

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, 2011 is as follows:

Amounts in NOK million	Bauxite, alumina and aluminium	Energy related	Other	Sales commit-ments
2012	3 665	7 485	925	(11 588)
2013	3 543	7 212	802	(7 991)
2014	2 739	5 544	680	(6 400)
2015	2 629	5 321	630	(4 997)
2016	2 353	5 177	506	(3 318)
Thereafter	27 737	29 820	3 579	(12 181)
Total	42 666	60 558	7 121	(46 475)

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 2012 and 15.4 TWh in total. Commitments relating to concession power from stations that are not subject to reversion amount to 249 GWh annually.

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

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

Note 40 - Financial instruments

Financial instruments, and contracts accounted for as such, are in the balance sheet included in several line items and classified in categories for accounting treatment. Below a reconciliation of the financial instruments in Hydro is presented:

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets 1)	Other financial liabilities	Non-financial assets and liabilities	Total
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
2010							
Assets - current							
Cash and cash equivalents	10 929	-	-	-	-	-	10 929
Short-term investments	1 321	-	-	-	-	-	1 321
Accounts receivable	-	-	11 569	-	-	1 214	12 783
Other current financial assets	792	21	-	-	-	-	814
Assets - non-current							
Investments accounted for using the equity method	-	-	1 552	-	-	17 097	18 649
Other non-current assets	446	-	1 436	1 509	-	-	3 391
Liabilities - current							
Bank loans and other interest-bearing short-term debt	-	-	-	-	940	-	940
Trade and other payables	-	-	-	-	5 975	3 945	9 920
Other current financial liabilities	1 217	75	-	-	-	-	1 292
Liabilities - non-current							
Long-term debt	-	-	-	-	328	-	328
Other non-current financial liabilities	1 895	-	-	-	-	-	1 895

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.

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]
2011							
Income statement line item							
Revenue	(752)	(102)	-	-	-	-	(854)
Raw material and energy expense	(238)	-	-	-	-	-	(238)
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				-			
2010							
Income statement line item							
Revenue	(308)	(11)	-	-	-	-	(319)
Raw material and energy expense	686	-	-	-	-	-	686
Financial income	(20)	-	-	(123) [2]	-	-	(143)
Financial expense	5	-	-	-	-	-	5
Gain/loss directly in Other comprehensive income							
Recognized directly in Other comprehensive income (before tax)				(175)			
Removed from Other components of equity and recognized in the income statement				90			

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	2011	Level 1	Level 2	Level 3	2010	Level 1	Level 2	Level 3
Assets								
Commodity derivatives	1 067	556	124	387	1 166	840	169	156
Currency derivatives	49	-	49	-	73	7	66	-
Cash flow hedges	-	-	-	-	21	21	-	-
Securities held for trading	1 301	425	855	22	1 321	391	905	25
Available for sale financial assets	1 052	-	-	1 052	1 509	-	-	1 509
Total	3 469	981	1 028	1 461	4 090	1 259	1 141	1 690
Liabilities								
Commodity derivatives	(2 224)	(337)	(123)	(1 764)	(3 051)	(248)	(606)	(2 197)
Currency derivatives	(22)	-	(22)	-	(61)	-	(61)	-
Cash flow hedges	-	-	-	-	(75)	(75)	-	-
Total	(2 246)	(337)	(145)	(1 764)	(3 188)	(323)	(667)	(2 197)

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, 2009	7	(1 765)	51	1 483
Total gains (losses)				
in income statement	149	(847)	(24)	101
in Other comprehensive income	-	-	-	85
Purchases	-	-	-	9
Settlements	-	149	(3)	(138)
Currency translation difference	-	(4)	-	(32)
December 31, 2010	156	(2 468)	25	1 509
Change in accounting policy		271		
December 31, 2010 restated	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) for the period	(206)	202	(7)	(13)
Total gains (losses) for the period included in the income statement for assets held at the end of the reporting period	(244)	441	(7)	(12)

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	(510)	(83)	(287)	(13)	510	119	287	20
Available for sale financial assets	421	231	-	(42)	183	(231)	-	45

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, 2011 and December 31, 2010. 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	**2011**	2010
Assets		
Electricity contracts	**127**	265
Aluminium futures, forwards and options	**940**	901
Total	**1 067**	1 166
Liabilities		
Electricity contracts	**(77)**	(314)
Coal forwards	**(1 803)**	(1 698)
Aluminium futures, forwards and options	**(474)**	(961)
Other	**129**	(77)
Total	**(2 224)**	(3 051)

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.

Currency derivatives

The following types of financial derivatives were recorded at fair value on the balance sheet as of December 31, 2011 and December 31, 2010.

Amounts in NOK million	**2011**	2010
Assets		
Embedded currency derivatives	**49**	66
Equity warrants	**-**	7
Total	**49**	73
Liabilities		
Currency forwards and swaps	**-**	(45)
Embedded currency derivatives	**(22)**	(16)
Total	**(22)**	(61)

Unless used in connection with hedge accounting, changes in the fair value of currency derivatives are included in Financial expense, net, in the income statement.

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, in addition to currency forwards, 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 will be reclassified into operating revenues when the corresponding forecasted sale of aluminium or alumina is recognized.

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, see note 5 Acquisitions. Hedge accounting was applied for these instruments from July 1, 2011. At the end of 2011, this cash flow hedge program had expired. No new cash flow hedges were entered into during 2011.

Ineffectiveness amounting to NOK 21 million was recognized in the income statement in 2010. No ineffectiveness was recognized in 2011 in connection with cash flow hedges.

The table below gives aggregated numbers related to the aluminium cash flow hedges for the period 2010 to 2011.

	2012	**2011**	2010
Aluminium sold forward with hedge accounting (kmt) 1)		**-**	1 593
of which open at year-end (kmt) 2)		**-**	1 593
Average prices achieved in hedges in USD (per mt) 3)		**-**	2 445
Expected to be reclassified to the income statement during the year (NOK million)	5	**(54)**	4
Reclassified to the income statement from Other components of equity (NOK million) 4)		**77**	8

1) Remaining volume sold forward at inception of hedge programs. There are no remaining volumes at the end of 2011.
2) Including closed out positions / repurchases of hedge derivatives.
3) Weighted average of remaining volume sold forward at inception of hedge program.
4) Deviates from expected reclassifications due to changes in market prices throughout the year. Negative amounts indicate a loss.

Hydro hedged the foreign currency exposure between US and Canadian dollar in connection with an expansion at the Alouette plant in Canada over the period March 2003 to March 2006. An annual gain NOK 5 million, corresponding to NOK 3 million after tax, has been reclassified each year, including 2011 and 2010, and is expected to be reclassified in future years until 2014.

As of December 31, 2010 an asset of NOK 21 million and a liability of NOK 75 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 2011 and 2010, 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 (formerly Nord Pool)/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	**2011**	2010
Cash and cash equivalents	**8 365**	10 929
Bank overdraft	**(21)**	(194)
Cash, cash equivalents and bank overdraft	**8 344**	10 735

Cash disbursements and receipts included in cash from operations

Amounts in NOK million	**2011**	2010
Income taxes paid	**1 654**	787
Interest paid	**317**	246
Interest received	**263**	201
Other dividends received	**7**	23

Note 43 - Auditor remuneration

KPMG AS is the Group auditor of Norsk Hydro ASA. KPMG succeeded Deloitte AS as the Group auditor with effect from the fiscal year 2010.

The following table shows fees to KPMG for 2011 and fees to KPMG and Deloitte for 2010. For all categories the reported fee is the recognized expense for the year. Fees to KPMG for 2011 and 2010 include fee related to the share issues, recognized directly in equity.

Amounts in NOK million	Audit	Audit related	Other services	Tax related	Total
KPMG 2011					
Norway	10	1	1	-	12
Outside Norway	14	1	-	-	15
Total	24	2	1	-	28
KPMG 2010					
Norway	5	-	-	-	5
Outside Norway	9	-	-	1	10
Total	14	-	-	1	15
Deloitte 2010					
Norway	4	3	1	1	8
Outside Norway	9	-	-	1	11
Total	13	3	1	1	18

Note 44 - Board of Directors and Corporate Assembly

Board of Directors' remuneration and share ownership

Normally, the remuneration to the Board of Directors consists of the payment of fees. In addition, board members receive a gift when leaving the board. 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 2011 for the chairperson of the board, deputy chairperson and directors are NOK 550,000 (2010: NOK 530,000), NOK 345,000 (2010: NOK 330,000) and NOK 300,000 (2010: NOK 290,000), respectively. The chairperson of the audit committee and the chairperson of the compensation committee receive an additional NOK 175,000 (2010: NOK 170,000) and NOK 31,000 (2010: NOK 30,000) annually in fees, respectively, and audit and compensation committee members receive NOK 113,500 (2010: NOK 110,000) and NOK 26,000 (2010: NOK 25,000) annually, respectively, for their participation on these committees.

Total board fees and individual board member fees for 2011, and outstanding loans and board member share ownership as of December 31, 2011, are presented in the tables below. Board fees for extraordinary meetings held during 2008 were paid in 2010.

Board of Directors' fees

Amounts in NOK thousand	**2011**	2010
Fees and other remuneration paid to board members during the year	**3 824**	3 956
Fees paid in prior year for service rendered in current year	**24**	-
Fees paid during the year for service rendered in other years	**(16)**	(579)
Fees related to board service during the year not yet paid	**-**	7
Total fees for board services provided to Hydro during the year	**3 832**	3 384
Fees and other remuneration - normal board activities	**3 245**	2 841
Fees - compensation committee	**109**	80
Fees - audit committee	**478**	463
Total fees for board services provided to Hydro during the year	**3 832**	3 384

Board member	Board fees [1]	Outstanding loans [1) 2]	Number of shares [3]
Board members as of December 31, 2011			
Terje Vareberg [4]	581	-	18 391
Bente Rathe [5]	459	-	29 000
Finn Jebsen [6]	326	-	53 406
Inge K. Hansen [7]	475	-	12 000
Eva Persson [8]	389	-	-
Liv Monica Stubholt [6]	326	-	-
Tito Martins [9]	250		-
Billy Fredagsvik [10) 11]	338	96	2 159
Sten Roar Martinsen [6) 10]	326	-	3 215
Ove Ellefsen [10) 12]	175	-	2 544
Board members during 2011 and 2010, not on the board as of December 31, 2011			
Jørn B. Lilleby [10) 13]	172	33	2 074
Heidi M. Petersen [14]	7	-	10 000
Total	3 824	129	132 789

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. The loans to Billy Fredagsvik have an interest rate of 3.9-7.25 percent and a repayment period of 1-7 years. The loan to Jørn Lilleby has 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, 2011 for board members as of December 31, 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 and member of the board audit committee.

6) Member of the board compensation committee.

7) Chairperson of the board audit committee.

8) Member of the board audit committee.

9) Member of the board as of February 28, 2011.

10) 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.

11) Member of the board audit committee as of October 1, 2011.

12) Member of the board as of May 13, 2011.

13) Member of the board and member of the board audit committee until May 13, 2011.

14) Member of the board and member of the board compensation committee in 2010.

Corporate Assembly

Corporate Assembly members owned 284,769 shares as of December 31, 2011. Loans to Corporate Assembly members 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 762 thousand as of December 31, 2011. The interest rate on these loans is between 3.90 and 7.25 percent and the repayment period is between two and 22 years.

Note 45 - Related party information

As of December 31, 2011, The Norwegian state owned 39.1 percent of the total shares outstanding (2010: 50.9 percent). This comprises the combined holdings of the Ministry of Trade and Industry and the holdings of Folketrygdfondet, which manages the Government Pension Fund - Norway. There are no preferential voting rights associated with the ordinary 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, 2011, Vale Austria Holdings GmbH, a wholly owned subsidiary of Vale S.A. owned 22 percent of the outstanding shares in Norsk Hydro ASA. The shares were issued as consideration for Hydro's acquisition of Vale Aluminium, see note 5 Acquisitions. 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. 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 newly 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 52 companies are managed by the ministries and covered by public information from the Ministry of Trade and Industry [1)]. For the purpose of this disclosure 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 common control exercised by the State.

Hydro completed a rights issue in July 2010. The Ministry of Trade and Industry participated in the rights issue for its relative share. Folketrygdfondet subscribed and underwrote for its pro rata share of the rights issue. Both shareholders participated at the same price as other shareholders.

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 are based on market price benchmarks and has a remaining life of around 9 years. Hydro has paid a total rental of NOK 192 million and NOK 189 million for 2011 and 2010, 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 2011 and 2010 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	2011	2010
Revenue		**311**	310
Gain (loss) on sale of subsidiaries and associates, net		**(8)**	-
Total revenue and income		**303**	310
Employee benefit expense	2, 3	**341**	473
Depreciation and amortization expense	4, 5	**25**	19
Impairment of non-current assets	5	**21**	-
Other		**280**	232
Total operating expenses		**668**	724
Operating loss		**(365)**	(414)
Financial income, net	6	**3 750**	2 794
Income (loss) before tax		**3 386**	2 380
Income taxes	7	**(773)**	(668)
Net income		**2 613**	1 712
Appropriation of net income and equity transfers			
Dividend proposed		**(1 527)**	(1 527)
Retained earnings		**(1 086)**	(186)
Total appropriation		**(2 613)**	(1 712)

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

Balance sheets

Amounts in NOK million, December 31	Notes	**2011**	2010
Assets			
Deferred tax asset	7	**-**	266
Other intangible assets	5	**47**	56
Intangible assets		**47**	322
Property, plant and equipment	4	**191**	205
Shares in subsidiaries	8	**56 695**	30 451
Intercompany receivables		**23 040**	18 602
Prepaid pension, investments and other non-current assets	2, 9, 10	**2 579**	2 512
Total financial non-current assets		**82 314**	51 564
Intercompany receivables		**6 974**	6 141
Prepaid expenses and other current assets	10	**163**	245
Cash and cash equivalents		**6 322**	9 556
Total current assets		**13 459**	15 943
Total assets		**96 011**	68 035
Equity and liabilities			
Paid-in capital			
Share capital	13	**2 272**	1 780
Treasury shares	13	**(36)**	(37)
Paid-in premium	13	**28 987**	9 495
Other paid-in capital	13	**69**	58
Retained earnings			
Retained earnings	13	**29 030**	27 945
Treasury shares	13	**(1 048)**	(1 076)
Equity	13	**59 274**	38 165
Long-term provisions	2	**2 420**	2 350
Long-term debt	12	**2 589**	233
Intercompany payables		**5 700**	319
Other long-term liabilities		**8 288**	552
Bank loans and other interest-bearing short-term debt	10	**590**	421
Dividends payable		**1 527**	1 527
Intercompany payables		**22 362**	23 396
Other current liabilities		**1 549**	1 624
Total current liabilities		**26 029**	26 968
Total equity and liabilities		**96 011**	68 035

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

Statements of cash flows

Amounts in NOK million	**2011**	2010
Net income	**2 613**	1 712
Depreciation, amortization and impairment	**46**	19
Gain on sale of non-current assets, net	**(16)**	(118)
Other adjustments	**(297)**	(2 000)
Net cash provided by (used in) operating activities	**2 346**	(387)
Investments in subsidiaries	**(26 354)**	(433)
Sales of subsidiaries	**20 114**	-
Net sales of other investments	**31**	122
Net cash used in investing activities	**(6 209)**	(311)
Dividends paid	**(1 527)**	(603)
Proceeds from shares issued	**26**	9 910
Other financing activities, net	**2 220**	(634)
Net cash provided by financing activities	**719**	8 673
Foreign currency effects on cash	**(90)**	(111)
Net increase (decrease) in cash and cash equivalents	**(3 234)**	7 864
Cash and cash equivalents at beginning of year	**9 556**	1 692
Cash and cash equivalents at end of year	**6 322**	9 556

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. Dividends 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.

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 were closed as of March 1, 2010 for new employees who became members of the new defined contribution plans. Employees who were members of the defined benefit plans were given a choice to change to the defined contribution plans as of June 1, 2010, of which approximately 25 percent chose the new plans. A settlement gain was recognized in the accounts in 2010. The defined contribution plans are administered by the external Norwegian pension provider Storebrand. Norsk Hydro ASA's defined benefit plans covered 5,001 participants as of December 31, 2011 and 5,212 participants as of December 31, 2010, while the defined contribution plans covered 179 participants as of December 31, 2011 and 202 participants as of December 31, 2010. The plans comply with minimum requirements for pension plans in Norway.

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 employer contributions are included in Multiemployer plans. A previous plan providing early retirement benefits from the age of 62 until the age of 67 years for the same group of employees was closed as of December 31, 2010. Estimated remaining employer contributions to cover the plan deficit have been provided for.

Net periodic pension cost

Amounts in NOK million	**2011**	2010
Defined benefit plans		
Benefits earned during the year	**89**	94
Interest cost on prior period benefit obligation	**211**	248
Expected return on plan assets	**(278)**	(300)
Recognized (gain) loss	**-**	-
Past service cost	**6**	8
Curtailment/settlement (gain) loss	**-**	(16)
Net periodic pension cost	**27**	35
Defined contribution plans	**7**	4
Multiemployer plans	**6**	6
Termination benefits and other	**20**	46
Total net periodic pension cost	**61**	92

Change in projected benefit obligation (PBO)

Amounts in NOK million	**2011**	2010
Projected benefit obligation at beginning of year	**(5 778)**	(5 738)
Benefits earned during the year	**(89)**	(94)
Interest cost on prior period benefit obligation	**(211)**	(248)
Actuarial gain (loss)	**(627)**	(179)
Plan amendments	**(1)**	(16)
Benefits paid	**324**	325
Curtailment/settlement gain (loss)	**-**	173
Special termination benefits	**(18)**	(1)
Projected benefit obligation at end of year	**(6 400)**	(5 778)

Change in pension plan assets

Amounts in NOK million	**2011**	2010
Fair value of plan assets at beginning of year	**5 499**	5 300
Actual return on plan assets	**120**	484
Company contributions	**-**	51
Benefits paid	**(249)**	(255)
Settlements	**-**	(81)
Fair value of plan assets at end of year	**5 370**	5 499

Status of pension plans reconciled to balance sheet

Amounts in NOK million	**2011**	2010
Defined benefit plans		
Funded status of the plans at end of year	**(1 030)**	(279)
Unrecognized net (gain) loss	**444**	(294)
Unrecognized past service cost	**6**	11
Net accrued pension recognized	**(580)**	(562)
Termination benefits and other	**(56)**	(91)
Total net accrued pension recognized	**(636)**	(653)
Amounts recognized in the balance sheet consist of		
Prepaid pension	**1 466**	1 372
Accrued pension liabilities	**(2 101)**	(2 024)
Net amount recognized	**(636)**	(653)

Assumptions used to determine net periodic pension cost

	2011	2010
Discount rate	**3.75%**	4.50%
Expected return on plan assets	**5.25%**	6.00%
Expected salary increase	**3.75%**	4.00%
Expected pension increase	**2.00%**	2.25%

Assumptions used to determine pension obligation at end of year

	2011	2010
Discount rate	**2.50%**	3.75%
Expected salary increase	**3.25%**	3.75%
Expected pension increase	**1.75%**	2.00%

Investment profile plan assets at end of year

	2011	2010
Asset category		
Equity securities	**26%**	29%
Debt securities	**34%**	31%
Real estate	**24%**	24%
Other	**17%**	16%
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.

At the Annual General Meeting May 4, 2010, KPMG AS was elected as new auditor of Norsk Hydro ASA with effect for the fiscal year 2010. KPMG succeeded Deloitte AS as the company's auditor. The following table shows fees to the elected auditor for 2011 and 2010.

Amounts in NOK million	Audit	Audit related	Other services	Tax related	Total
2011					
Fees to KPMG	6	1	1	-	8
2010					
Fees to KPMG	3	-	-	-	3
Fees to Deloitte	2	1	1	-	4

The average number of employees in Norsk Hydro ASA was 571 in 2011 as compared to 655 in 2010. As of year end 2011 and 2010 Norsk Hydro ASA employed 549 and 592 employees, respectively.

Total loans given by Norsk Hydro ASA to Norwegian employees as of December 31, 2011 were NOK 207 million. Loans to employees consist of NOK 135 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of December 31, 2011 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	**2011**	2010
Payroll and related costs:		
Salaries	**677**	728
Social security costs	**114**	136
Social benefits	**(4)**	1
Net periodic pension cost (note 2)	**61**	92
Internal invoicing of payroll related costs	**(506)**	(484)
Total	**341**	473

Note 4 - Property, plant and equipment

Operating lease expense amounted to NOK 197 million in 2011 and NOK 199 million in 2010. The company has the following future operating lease commitments under non-cancellable leases: 2012: NOK 195 million, 2013: NOK 195 million, 2014: NOK 195 million, 2015: NOK 195 million, 2016: NOK 195 million and thereafter: NOK 811 million.

Amounts in NOK million	Land	Buildings	Machinery, etc	Plant under construction	Total
Cost December 31, 2010	6	102	219	-	327
Additions at cost	-	-	5	5	11
Retirements	-	(5)	(5)	-	(10)
Transfers	-	1	-	(1)	-
Accumulated depreciation December 31, 2011	-	(40)	(97)	-	(136)
Carrying value December 31, 2011	6	58	122	4	191
Depreciation in 2011	-	(1)	(18)	-	(19)

Note 5 - Intangible assets

Amounts in NOK million	Cost	Accumulated amortization	Carrying value
Balance December 31, 2010	61	(5)	56
Additions at cost	18		18
Amortization for the year		(6)	(6)
Impairment loss		(21)	(21)
Balance December 31, 2011	79	(32)	47

Note 6 - Financial income and expense

Amounts in NOK million	**2011**	2010
Dividends from subsidiaries	**1 926**	1 720
Gain on sale of shares, tax free	**-**	122
Interest from group companies	**1 912**	814
Other interest income	**71**	86
Interest paid to group companies	**(908)**	(220)
Other interest expense	**(158)**	(169)
Net foreign exchange gain	**630**	558
Other, net	**278**	(117)
Financial income, net	**3 750**	2 794

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	**2011**	2010
Short-term items	**1**	140
Pensions	**178**	183
Other long-term items	**(182)**	(57)
Deferred tax asset	**(3)**	266

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	**2011**	2010
Income (loss) before taxes	**3 386**	2 380
Expected income taxes at statutory tax rate	**948**	666
Permanent differences and other, net	**(175)**	2
Income taxes	**773**	668
Effective tax rate	**22.82%**	28.06%
Components of income tax		
Current income tax	**504**	584
Change in deferred tax	**269**	84
Income tax	**773**	668

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

Tax effect of share issue costs of NOK 1 million and NOK 42 million, were credited directly to equity in 2011 and 2010, respectively.

Taxes payable as of December 31, 2011 and 2010 were NOK 1,100 million and NOK 1,153 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	880 000	5 603
Grenland Industriutvikling AS	NOK	100.00	26 750	111
Hydro Aluminium Deutschland GmbH [1)]	EUR	25.04	73 894	92
Norsk Hydro Plastic Pipe AS	NOK	100.00	10 000	39
Industriforsikring AS	NOK	100.00	20 000	20
Hydro Kapitalforvaltning AS	NOK	100.00	2 500	4
Norsk Hydro Kraft OY	EUR	100.00	34	-
Total				56 695

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

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

Note 9 - Related party information

See note 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. Following the acquisition of Vale Aluminium Norsk Hydro ASA received share holdings in certain subsidiaries as contribution for the shares issued to Vale. These share holdings were immediately sold to subsidiaries of Norsk Hydro ASA in 2011 for an amount of NOK 20.1 billion. In addition, Norsk Hydro ASA made a NOK 26.4 billion capital contribution to Hydro Aluminium AS in 2011 to finance investments mainly related to the Vale Aluminium acquisition.

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 2011 was NOK 226 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	**2011**	2010
Securities	**536**	536
Prepaid pension	**1 466**	1 372
Associates and jointly controlled entites	**22**	28
Other non-current assets	**557**	577
Total prepaid pension, investments and other non-current assets	**2 579**	2 512
Prepaid expenses	**61**	166
Trade receivables	**68**	48
Other current assets	**35**	31
Total prepaid expenses and other current assets	**163**	245
Employee deposits	**381**	404
Other interest-bearing debt	**209**	17
Total bank loans and other interest-bearing short-term debt	**590**	421

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. Guarantees in connection with the sale of companies, referred to as sales guarantees in the table below, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. Guarantees related to jointly controlled entities primarily relate to Qatalum. See note 37 Guarantees in the consolidated financial statements for additional information.

Amounts in NOK million	**2011**	2010
Guarantees related to jointly controlled entities	**7 696**	7 656
Sales guarantees	**600**	1 695
Commercial guarantees	**4 607**	4 188
Total guarantees not recognized	**12 903**	13 539

Note 12 - Long-term debt

As of December 31, 2011, long-term debt amounted to NOK 2,589 million, of which NOK 867 million fall due after 2016. As of December 31, 2010, long-term debt amounted to NOK 233 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, 2011 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, 2011 Norsk Hydro ASA had purchased 32,539,257 treasury shares at a cost of NOK 1,084 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 2,036,459,019 shares outstanding as of December 31, 2011, according to information in the Norwegian securities' registry system (Verdipapirsentralen).

Navn	**Antall aksjer**
Nærings- og handelsdepartementet	708 865 253
Vale Austria Holdings GmbH	447 834 465
Folketrygdfondet	87 699 011
State Street Bank and Trust Co.[2)]	61 999 810
Clearstream Banking S.A.[2)]	43 458 327
Rasmussengruppen AS	34 700 000
The Northern Trust Co.[2)]	29 490 307
Bnym As Emea Asia 25 Omnibus[2)]	13 200 250
State Street Bank and Trust Co.[2)]	12 153 976
Bank of New York Mellon[2)]	11 589 575
State Street Bank and Trust Co.[2)]	11 332 579
JPMorgan Chase Bank, NA[1)]	10 390 127

1) Representing American Depositary Shares.
2) Nominee accounts.

Changes in equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
December 31, 2010	11 296	26 869	38 165
Net income		2 613	2 613
Dividend proposed		(1 527)	(1 527)
Shares issued	19 985		19 985
Treasury shares	12	27	39
December 31, 2011	31 292	27 981	59 274

Responsibility Statement

We confirm to the best of our knowledge that the consolidated financial statements for 2011 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 2011 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 20, 2012

Terje Vareberg
Chair

Bente Rathe
Deputy chair

Billy Fredagsvik
Board member

Finn Jebsen
Board member

Inge K. Hansen
Board member

Ove Ellefsen
Board member

Sten Roar Martinsen
Board member

Liv Monica Bargem Stubholt
Board member

Eva Persson
Board member

Tito Martins
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 2011, 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 2011, 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 Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices 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 Managing Director 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 statement

In our opinion, the parent company's financial statements are prepared in accordance with the laws and regulations and give a true and fair view of the financial position of Norsk Hydro ASA as at 31 December 2011, 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 laws and regulations and give a true and fair view of the financial position of Norsk Hydro ASA and its subsidiaries as at 31 December 2011, 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 Report 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 report on Corporate Governance concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit 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 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, 20 March 2012
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 2011 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2011 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 2011 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, March 20, 2012
Siri Teigum

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 23,000 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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