



HYDRO



2016

FOURTH QUARTER REPORT

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Oslo, February 9, 2017

Overview

Summary underlying financial and operating results and liquidity

Key financial information	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
NOK million, except per share data							
Revenue	21 250	20 174	5 %	20 374	4 %	81 953	87 694
Earnings before financial items and tax (EBIT)	1 964	1 376	43 %	725	>100 %	7 011	8 258
Items excluded from underlying EBIT ¹⁾	(135)	101	>(100) %	841	>(100) %	(586)	1 398
Underlying EBIT ¹⁾	1 829	1 477	24 %	1 566	17 %	6 425	9 656
<i>Underlying EBIT :</i>							
Bauxite & Alumina	711	153	>100 %	532	34 %	1 227	2 421
Primary Metal	601	637	(6) %	407	48 %	2 258	4 628
Metal Markets	152	117	30 %	152	-	510	379
Rolled Products	6	211	(97) %	204	(97) %	708	1 142
Energy	359	285	26 %	353	2 %	1 343	1 105
Other and eliminations ²⁾	(1)	75	>(100) %	(83)	99 %	380	(19)
Underlying EBIT ¹⁾	1 829	1 477	24 %	1 566	17 %	6 425	9 656
Earnings before financial items, tax, depreciation and amortization (EBITDA) ³⁾	3 563	2 792	28 %	2 128	67 %	12 485	13 282
Underlying EBITDA ¹⁾	3 143	2 753	14 %	2 969	6 %	11 474	14 680
Net income (loss)	1 008	1 119	(10) %	541	86 %	6 586	2 333
Underlying net income (loss) ¹⁾	968	958	1 %	1 296	(25) %	3 875	6 709
Earnings per share	0.52	0.53	(2) %	0.23	>100 %	3.13	0.99
Underlying earnings per share ¹⁾	0.47	0.46	2 %	0.59	(21) %	1.83	2.98
<i>Financial data:</i>							
Investments ¹⁾	3 541	1 914	85 %	2 556	39 %	9 137	5 865
Adjusted net cash (debt) ¹⁾	(5 598)	(8 072)	31 %	(8 173)	32 %	(5 598)	(8 173)
Underlying Return on average Capital Employed (RoaCE) ¹⁾						5.1 %	9.2 %
<i>Key Operational information</i>							
	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
Bauxite production (kmt) ⁴⁾	3 063	2 777	10 %	2 959	4 %	11 132	10 060
Alumina production (kmt)	1 635	1 635	-	1 577	4 %	6 341	5 962
Primary aluminium production (kmt)	526	526	-	521	1 %	2 085	2 046
Realized aluminium price LME (USD/mt)	1 647	1 612	2 %	1 555	6 %	1 574	1 737
Realized aluminium price LME (NOK/mt)	13 659	13 375	2 %	13 125	4 %	13 193	13 813
Realized USD/NOK exchange rate	8.29	8.30	-	8.44	(2) %	8.38	7.95
Rolled Products sales volumes to external market (kmt)	213	231	(7) %	229	(7) %	911	948
Sapa sales volumes (kmt) ⁵⁾	155	170	(9) %	156	-	682	682
Power production (GWh)	2 551	2 946	(13) %	2 882	(11) %	11 332	10 894

1) Alternative performance measures (APMs) are described in the corresponding section in the back of the report.

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

3) EBITDA per segment is specified in Note 2: Operating segment information.

4) Paragominas production, on wet basis.

5) Hydro's 50 percent share of Sapa sales volumes.

Hydro's underlying earnings before financial items and tax increased to NOK 1,829 million in the fourth quarter, up from NOK 1,477 million in the third quarter. The increase mainly reflected higher realized alumina and metal prices, somewhat offset by higher costs and lower metal sales affected by seasonality, especially in Rolled Products.

Underlying EBIT for Bauxite & Alumina increased significantly compared to the third quarter due to higher realized alumina prices, driven by a higher alumina index and LME. There was also a significant positive effect from the settlement of a compensation arrangement related to the acquisition of Paragominas in 2011, which was realized in combination with acquisition of the remaining shares in Paragominas. Both the bauxite mine in Paragominas and alumina refinery at Alunorte reached record yearly production of 11.1 million mt and 6.3 million mt respectively for 2016.

Underlying EBIT for Primary Metal declined somewhat in the fourth quarter. Lower volumes and seasonally higher fixed costs, were largely offset by higher realized aluminium prices.

Underlying EBIT for Metal Markets improved in the fourth quarter mainly due to improved results from sourcing and trading activities partly offset by somewhat lower results from remelters.

Underlying EBIT for Rolled Products was significantly lower compared to the third quarter of 2016 primarily due to seasonally lower volumes, reduced margins, higher maintenance activities and higher costs. In addition, depreciation increased somewhat due to the start-up of the new automotive line in Grevenbroich in the fourth quarter. The USD strengthening against the Euro contributed positively and the Neuss smelter result improved due to an increase in the all-in metal price.

Underlying EBIT for Energy increased compared to the previous quarter mainly due to higher prices, lower area cost and improved contribution from commercial activities, partly offset by lower production. Production costs were reduced by seasonally lower property taxes⁶⁾, partly offset by higher transmission cost and higher maintenance activity. Area cost declined later in the quarter in line with better transmission capacity and improved hydrology in Mid-Norway.

Underlying EBIT for Sapa decreased compared to the previous quarter, mainly due to seasonally lower demand.

For the full year, Hydro's underlying EBIT decreased to NOK 6,425 million compared with NOK 9,656 million in 2015 primarily due to a decrease in realized alumina prices and all-in metal prices⁷⁾, partly compensated by positive currency effects, lower raw material costs and ongoing improvement efforts. In 2016, Bauxite & Alumina achieved record production at both Paragominas and Alunorte, Sapa performance continued to improve, while Rolled Products delivered a weaker result driven by lower margins and higher costs.

Hydro made good progress on its "Better" improvement ambition targeting NOK 2.9 billion of annual improvements by 2019. For 2016, NOK 1.4 billion of annual improvements were delivered exceeding the 1.1 billion target.

Hydro's net cash position⁸⁾ increased during the fourth quarter by NOK 0.6 billion to NOK 6.0 billion at the end of the quarter. Net cash provided by operating activities amounted to NOK 4.2 billion. Net cash used in investment activities, excluding short term investments, amounted to NOK 2.4 billion.

For 2016, Hydro's Board of Directors proposes an increased dividend of NOK 1.25 per share, demonstrating the company's commitment to provide a predictable and competitive cash return to shareholders and taking into account the volatility in the aluminium industry. The proposed payment represents a 40 percent pay-out ratio of reported net income for the year reflecting Hydro's operational performance for 2016 and strong financial position.

Hydro's Board of Directors has revised the company's dividend policy to reflect the ambition to pay a stable or increasing dividend. Hydro's policy is in the long term to pay out, on average, 40 percent of reported net income as dividend over the cycle.

6) From 2015 property tax is charged to the period it becomes an unconditional payment obligation (in Norway when invoiced). This leads to periodic variations within the year without affecting the annual property tax level.

7) The all-in metal price refers to the LME aluminium price plus premiums.

8) Net cash (debt) includes Cash and cash equivalents and Short-term investments less Bank loans and other interest bearing Short-term debt and Long-term debt.

Reported EBIT and net income

Reported earnings before financial items and tax amounted to NOK 1,964 million in the fourth quarter. In addition to the factors discussed above, reported EBIT included net unrealized derivative gains of NOK 106 million and positive metal effects of NOK 68 million. Reported earnings also included a charge of NOK 285 million reflecting partial write-down of capitalized costs due to a design review of the part-owned projected CAP alumina refinery and a compensation of NOK 254 million relating to the completion of outstanding contractual arrangements with Vale, both within Bauxite & Alumina. In addition, reported earnings included a charge of NOK 32 million relating to a change in interest rate used in the calculation of environmental liabilities linked to idled sites in Germany, and a net gain of NOK 23 million in Sapa (Hydro's share net of tax) relating to unrealized derivative gains, rationalization charges and net foreign exchange gains.

In the previous quarter reported earnings before financial items and tax amounted to NOK 1,376 million including net unrealized derivative gains of NOK 100 million and positive metal effects of NOK 48 million. Reported EBIT also included a charge of NOK 124 million relating to the demolition of the Kurri Kurri site and an impairment charge of NOK 140 million relating to the decision to divest the Hannover site. In addition, reported earnings included a net gain of NOK 15 million in Sapa (Hydro's share net of tax) relating to unrealized derivative gains, rationalization charges and net foreign exchange gains.

For the full year 2016, reported earnings before financial items and tax amounted to NOK 7,011 million including net unrealized derivative gains and positive metal effects of NOK 553 million in total. Reported earnings also included charges of NOK 192 million relating to the demolition of the Kurri Kurri site, impairment charges of NOK 426 million relating to the part-owned projected CAP alumina refinery and the Hannover site, a net gain of NOK 314 million relating to the sale of certain assets in Grenland, in addition to a negative adjustment relating to the sale of the Slim rolling mill in the fourth quarter of 2015. Other positive effects of NOK 223 million reflects the compensation relating to the completion of outstanding contractual arrangements with Vale and the charge of NOK 32 million relating to re-measurement of environmental liabilities in Germany. In addition, reported earnings included a net gain of NOK 113 million for Sapa (Hydro's share net of tax), relating to unrealized derivative gains, rationalization charges and net foreign exchange gains.

In the previous year, reported earnings before financial items and tax amounted to NOK 8,258 million including net unrealized derivative gains and negative metal effects of NOK 454 million in total. Reported earnings also included charges of NOK 285 million relating to the termination of the Vækerø Park lease contract and net losses on divestments of NOK 365 million, including losses of NOK 434 million related to the sale of the Slim rolling mill and gains of NOK 69 million in total related to sale of other assets. In addition, reported earnings included a net charge of NOK 331 million for Sapa (Hydro's share net of tax) relating to unrealized derivative losses, rationalization charges and net foreign exchange losses, together with a compensation of NOK 37 million relating to insurance proceeds in Qatalum.

Net income amounted to NOK 1,008 million in the fourth quarter including a net foreign exchange loss of NOK 26 million mainly reflecting the strengthening Euro versus Norwegian kroner affecting liabilities in Euro in Norway and embedded currency derivatives in power contracts.

In the previous quarter net income was NOK 1,119 million including a net foreign exchange gain of NOK 358 million mainly reflecting the strengthening Norwegian kroner versus Euro affecting liabilities in Euro in Norway and embedded currency derivatives in power contracts.

In 2016 net income amounted to NOK 6,586 million including a net foreign exchange gain of NOK 2,266 million. The net foreign exchange gain in 2016 was mainly comprised of unrealized currency gains on US dollar debt in Brazil and embedded derivatives in power contracts denominated in Euro. The net foreign exchange gain also included gains on internal debt denominated in Euro.

In the previous year income amounted to NOK 2,333 million including a net foreign exchange loss of NOK 4,397 million. The net foreign exchange loss in 2015 was mainly comprised of currency losses on US dollar debt in Brazil and embedded derivatives in power contracts denominated in Euro. The net foreign exchange loss also included losses on US dollar debt in Norway.

Market developments and outlook

Industry statistics, commentary and other information in the table and text in this section have been derived from analyst reports, trade associations and other public sources as well as Hydro's own analysis unless otherwise indicated. The information in this section is intended to provide an overview of the main developments in the key markets Hydro is exposed to, and does not have any direct relationship to the reported figures of Norsk Hydro. Statistics presented in prior reports may have been restated based on updated information. Currency rates have been derived from Norges Bank.

Market statistics	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
USD/NOK Average exchange rate	8.38	8.32	1 %	8.53	(2) %	8.40	8.07
USD/NOK Period end exchange rate	8.62	8.05	7 %	8.81	(2) %	8.62	8.81
BRL/NOK Average exchange rate	2.54	2.56	(1) %	2.22	15 %	2.42	2.45
BRL/NOK Period end exchange rate	2.65	2.48	7 %	2.22	19 %	2.65	2.22
USD/BRL Average exchange rate	3.30	3.24	2 %	3.85	(14) %	3.48	3.34
USD/BRL Period end exchange rate	3.25	3.24	-	3.96	(18) %	3.25	3.96
EUR/NOK Average exchange rate	9.04	9.29	(3) %	9.34	(3) %	9.29	8.95
EUR/NOK Period end exchange rate	9.09	8.99	1 %	9.62	(6) %	9.09	9.62
<i>Bauxite and alumina:</i>							
Average alumina price - Platts PAX FOB Australia (USD/t)	308	234	32 %	233	32 %	254	301
China bauxite import price (USD/mt CIF China)	49	49	1 %	51	(4) %	49	53
Global production of alumina (kmt)	29 849	29 258	2 %	28 140	6 %	113 847	112 238
Global production of alumina (ex. China) (kmt)	14 106	14 108	-	13 898	1 %	54 855	55 451
<i>Primary aluminium:</i>							
LME three month average (USD/mt)	1 709	1 633	5 %	1 509	13 %	1 610	1 680
LME three month average (NOK/mt)	14 320	13 585	5 %	12 859	11 %	13 509	13 508
Standard ingot premium (EU DP Cash)	131	119	10 %	157	(17) %	132	237
Extrusion ingot premium (DP)	312	316	(1) %	330	(5) %	317	518
Global production of primary aluminium (kmt)	15 416	14 968	3 %	14 471	7 %	58 926	57 167
Global consumption of primary aluminium (kmt)	15 059	15 287	(1) %	14 431	4 %	59 638	56 563
Global production of primary aluminium (ex. China) (kmt)	6 838	6 797	1 %	6 700	2 %	26 945	26 329
Global consumption of primary aluminium (ex. China) (kmt)	6 965	7 085	(2) %	6 755	3 %	28 188	27 296
Reported primary aluminium inventories (kmt)	5 027	4 966	1 %	6 305	(20) %	5 027	6 305
<i>Rolled products and extruded products:</i>							
Consumption rolled products - Europe (kmt)	1 112	1 211	(8) %	1 082	3 %	4 712	4 587
Consumption rolled products - USA & Canada (kmt)	1 132	1 216	(7) %	1 088	4 %	4 716	4 670
Consumption extruded products - Europe (kmt)	691	746	(7) %	682	1 %	2 994	2 949
Consumption extruded products - USA & Canada (kmt)	551	600	(8) %	540	2 %	2 364	2 315
<i>Energy:</i>							
Average southern Norway spot price (NO2) (NOK/MWh)	296	212	40 %	197	50 %	233	177
Average mid Norway spot price (NO3) (NOK/MWh)	333	271	23 %	201	66 %	266	190
Average nordic system spot price (NOK/MWh)	311	235	33 %	204	52 %	250	187

Bauxite and alumina

Chinese alumina imports amounted to 3.0 million mt in 2016, down 35 percent from 2015. Chinese bauxite imports decreased 7 percent to 52.1 million mt compared to 56.1 million mt in 2015. Imports from Guinea surged to 11.9 million mt from 0.3 million mt in 2015 driven by the ramp-up of a new bauxite mine. Supply of bauxite from the Atlantic basin accounted for 35 percent of Chinese imports in 2016, up from 7 percent in 2015.

Platts alumina spot prices averaged USD 308 per mt in the fourth quarter of 2016, an increase of USD 74 per mt compared to the previous quarter. Prices started the quarter at USD 249 per mt, steadily increasing thereafter to reach USD 349 per mt at the end of the quarter. Average prices represented 18.0 percent of LME in the quarter compared with 14.4 percent in the previous quarter. According to Chinese import statistics, the average delivered China bauxite price was USD 49.2 per mt in the quarter marginally above the previous quarter average of USD 48.5 per mt.

Primary aluminium

Three-month LME prices ranged between USD 1,618 and USD 1,779 per mt throughout the fourth quarter of 2016. The average LME three-month price was USD 1,709, increasing by USD 76 per mt compared to the third quarter of 2016. In Europe, all-in metal prices including duty paid standard ingot premiums also increased in the fourth quarter driven by higher LME. European all-in metal prices ranged between USD 1,753 and USD 1,917 per mt.

Standard ingot premiums increased by USD 5 per mt during the quarter in Europe, while premiums in the US had an even stronger increase, of USD 45 per mt. European duty paid standard ingot premiums ended the quarter at USD 128 per mt, compared to USD 123 at the beginning of the quarter, and averaged USD 131 per mt in the fourth quarter compared to USD 119 per mt in the third quarter. Midwest premiums started the quarter at USD 139 per mt, and ended the quarter at USD 184 per mt, averaging USD 168 per mt compared to USD 142 per mt in the third quarter.

Shanghai Futures Exchange (SHFE) prices increased significantly in the fourth quarter compared to the third quarter, recording a stronger growth than the growth seen in the LME prices. This was caused by low reported stocks and steady demand activity together with a positive market sentiment. The increased SHFE prices, together with moderate standard ingot premiums outside China, resulted in continued low export arbitrage opportunities for China. Both the average semis and fabricated products export in October and November were lower than the average semis and fabricated products export during the third quarter. The increased SHFE prices lead to continued restart of Chinese capacity, in addition to new greenfield projects being commissioned. While the majority of these starts and restarts took place in 2016, the main effect on production will be seen in 2017, due to the lead time for production ramp ups.

Global primary aluminium consumption decreased by 1.5 percent to 15.1 million mt in the fourth quarter compared to the third quarter, mainly due to seasonal effects. Compared to the fourth quarter of 2015, global demand increased 4.3 percent. Global demand for primary aluminium grew by around 5 percent in 2016, and is expected to grow by around 3-5 percent in 2017.

Outside China, demand seasonally decreased by 1.7 percent compared to the third quarter of 2016, while the year-on-year increase from the fourth quarter of 2015 was 2.9 percent. Consumption outside China amounted to 7.0 million mt for the fourth quarter of 2016. Corresponding production amounted to 6.8 million mt, an increase of 0.6 percent compared to the third quarter of 2016. Production outside China experienced a 2.1 percent increase compared to the fourth quarter of 2015 and a full year growth in 2016 of 2.3 percent, largely driven by ramp-up of new production capacity in India, Canada and Malaysia. Demand for primary aluminium outside China grew by around 3 percent in 2016, and is expected to grow by around 2-4 percent in 2017.

Compared to the third quarter of 2016, Chinese aluminium consumption decreased by 1.3 percent, to 8.1 million mt, due to slight seasonal effects. The year-on-year increase compared to the fourth quarter of 2015 was 5.5 percent, and the full year growth in 2016 was 7.4 percent. Corresponding aluminium production increased by 5.0 percent compared to the third quarter of 2016, and increased 10.4 percent compared to the fourth quarter of 2015. The full year growth in Chinese production in 2016 was 3.7 percent. The ramp up of new capacity continues in the Northwest regions, in Shandong in the East, in Guizhou in the South East of China and in Inner Mongolia in the North. Demand for primary aluminium in China is expected to grow by around 4-6 percent in 2017 and production is expected to increase by 7-9 percent.

European demand for extrusion ingot increased in the fourth quarter of 2016 compared to the same period one year ago. Demand for sheet ingot and primary foundry alloys continued increasing at a higher pace than extrusion ingot, mainly due to the positive developments in the automotive industry.

LME stocks have stabilized, still amounting to 2.2 million mt at the end of the fourth quarter of 2016, the same level as at the end of the third quarter of 2016. Compared to fourth quarter of last year, however, LME stocks are down 1.0 million mt. Estimated unreported stocks in the fourth quarter increased by 0.3 million mt compared to the the third quarter of 2016 and 0.6 million mt compared to the fourth quarter of 2015.

Rolled products

European demand for flat rolled products declined in the fourth quarter of 2016 compared to the previous quarter mainly due to seasonality. Compared to the fourth quarter of last year, European demand increased by 2.7 percent.

Despite seasonally lower demand in the fourth quarter, demand in automotive remains positive, driven by increasing substitution of steel by aluminium for automotive body sheet. The building and construction segment was impacted by customers year-end destocking but demand remained stable compared to the same quarter last year. Apart from the seasonal decline, the beverage can demand remained healthy and in foil on the same level as the fourth quarter of 2015. The market for general engineering products remains solid but was also impacted by the seasonal decline.

European demand for flat rolled products increased by 2.7 percent in 2016 compared to 3.1 percent in 2015.

In the first quarter of 2017 demand is expected to be seasonally higher.

Extruded products

Demand for extruded products in Europe and North America decreased compared to the previous quarter by 7.3 percent and 8.2 percent respectively, driven by seasonality.

Compared to the same period last year, demand increased by 1.9 percent in North America and 1.3 percent in Europe and for the full year demand increased by 2.1 percent in North America and 1.5 percent in Europe. In North America, the increase was driven by higher building and construction activities and a stronger automotive demand partly offset by a weaker transportation segment. Europe experienced stronger automotive and transportation demand and a somewhat improved building and construction market.

Demand for extruded products is expected to seasonally improve going into the first quarter of 2017.

Energy

Overall, Nordic spot prices were volatile but on average higher in the fourth quarter compared to the previous quarter. An increasing hydrological deficit and an increase in continental spot prices provided support to the Nordic system price at the beginning of the quarter. From November spot prices began to decline due to an improving hydrological balance. Spot prices started and ended the quarter at more or less the same price level. Southern Norway (NO2) power prices continued to be negatively impacted by export cable restrictions. Power prices in Mid-Norway (NO3) remained at a higher level in October and November but came closer to Southern Norway prices towards the end of the quarter due to improved exchange capacity into Mid-Norway, high Nordic nuclear production and improved hydrology.

The Nordic hydrological balance ended the quarter at 6 TWh¹⁾ below normal. Water reservoirs in Norway were 66 percent of full capacity at the end of the quarter, which is 6 percentage points below normal level, while snow reservoirs were close to normal at the end of the quarter.

1) Normal based on long term historical averages.

Additional factors impacting Hydro

Primary Metal has sold forward around 50 percent of its expected primary aluminium production for the first quarter of 2017 at a price level of around USD 1,725 per mt.¹⁾

Sapa Profiles Inc. (SPI), a Portland, Oregon based subsidiary of Sapa AS (owned 50 percent by Hydro) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding certain aluminum extrusions that SPI manufactured from 1996 to 2015, including extrusions that were delivered to a supplier to NASA. SPI is cooperating fully in these investigations. The investigations are currently ongoing, and, at this point, the outcome of the investigations and of any identified quality issues, including financial consequences on Sapa, is uncertain. SPI also has been temporarily suspended as a federal government contractor. Based on the information known to Hydro at this stage, Hydro does not expect any resulting liabilities to have a material adverse effect on its consolidated results of operations, liquidity or financial position.

In April 2016, the Norwegian Tax Appeal Board ruled in favor of Hydro in a tax dispute. Taxes related to losses on refinancing of subsidiaries in 2008 were denied for deduction in 2013 and the tax claim was paid in 2014. Following the decision in the Tax Appeal Board, Hydro recognized approximately NOK 600 million in reduced tax expense and approximately NOK 100 million in interest income in the first quarter of 2016. Hydro received the reimbursement in the second quarter of 2016. The tax authorities have notified Hydro that they will ask for a re-examination of the case by the National Tax Board (Riksskattenemnda).

A special resource rent tax, at 33 percent for the income year 2016, is imposed on hydropower production in Norway. Power supplied to Hydro's own industrial production facilities, has for resource rent tax purposes, been valued according to a price formula in historical Statkraft contracts. This price formula was repealed at the end of 2015, and replaced by a new reference price valid from 2017. The new reference price is based on long-term power supply contracts delivered to Hydro from external parties. For 2016, tax valuation on this volume is based on spot market price. The new regime established from 2017 will ensure a predictable tax basis and taxation in line with other hydropower producers supplying power to industrial production.

1) Prices are fixed mainly one month prior to production. As a result, and due to the hedging of product inventories, Hydro's realized aluminium prices lag LME spot prices by around 1.5 to 2 months.

Underlying EBIT

Alternative performance measures (APMs) are described in the corresponding section in the back of the report.

Bauxite & Alumina

Operational and financial information	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	680	153	>100 %	513	32 %	1 196	2 411
Underlying EBIT (NOK million)	711	153	>100 %	532	34 %	1 227	2 421
Underlying EBITDA (NOK million)	1 258	664	90 %	1 165	8 %	3 221	4 404
Alumina production (kmt)	1 635	1 635	-	1 577	4 %	6 341	5 962
Sourced alumina (kmt)	883	512	72 %	590	50 %	2 541	2 787
Total alumina sales (kmt)	2 472	2 221	11 %	2 368	4 %	8 843	8 871
Realized alumina price (USD/mt) ¹⁾	257	240	7 %	245	5 %	240	276
Bauxite production (kmt) ²⁾	3 063	2 777	10 %	2 959	4 %	11 132	10 060
Sourced bauxite (kmt) ³⁾	2 235	2 108	6 %	2 398	(7) %	8 499	8 684

1) Weighted average of own production and third party contracts. The majority of the alumina is sold linked to either the LME prices or alumina index with a one month delay.

2) Paragominas production, on wet basis.

3) 40 percent MRN off take from Vale and 5 percent Hydro share on wet basis.

Underlying EBIT for Bauxite & Alumina increased significantly compared to the third quarter due to higher realized alumina prices, driven by a higher alumina index and LME. There was also a significant positive effect from the settlement of a compensation arrangement related to the acquisition of Paragominas in 2011, which was realized in combination with acquisition of the remaining shares in Paragominas. Both the bauxite mine in Paragominas and alumina refinery at Alunorte reached record yearly production of 11.1 million mt and 6.3 million mt respectively for 2016.

Hydro completed the acquisition of Vale's remaining shareholding in Paragominas on December 15, 2016. The transaction had a positive impact for Bauxite & Alumina of NOK 405 million on its result in the fourth quarter of 2016, of which NOK 151 million was included in underlying earnings.

Bauxite and Alumina well exceeded their "Better Bauxite & Alumina" improvement ambition of NOK 500 million in improvements for 2016.

Compared to the fourth quarter of 2015 the underlying EBIT increased mainly due to higher realized alumina prices, lower raw material prices and higher production. This was partly offset by negative currency effects from a stronger Brazilian Real.

Compared to the year 2015 the underlying EBIT for 2016 declined mainly due to lower realized alumina prices partly offset by positive currency effects from a weaker Brazilian Real and lower raw material prices.

Primary Metal

Operational and financial information ¹⁾	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	619	591	5 %	311	99 %	2 285	4 459
Underlying EBIT (NOK million)	601	637	(6) %	407	48 %	2 258	4 628
Underlying EBITDA (NOK million)	1 068	1 125	(5) %	883	21 %	4 172	6 581
Realized aluminium price LME (USD/mt) ²⁾	1 647	1 612	2 %	1 555	6 %	1 574	1 737
Realized aluminium price LME (NOK/mt) ²⁾	13 659	13 375	2 %	13 125	4 %	13 193	13 813
Realized premium above LME (USD/mt) ³⁾	240	251	(4) %	291	(18) %	263	439
Realized premium above LME (NOK/mt) ³⁾	1 993	2 082	(4) %	2 460	(19) %	2 201	3 492
Realized USD/NOK exchange rate	8.29	8.30	-	8.44	(2) %	8.38	7.95
Primary aluminium production (kmt)	526	526	-	521	1 %	2 085	2 046
Casthouse production (kmt)	523	541	(3) %	525	-	2 146	2 059
Total sales (kmt)	528	573	(8) %	531	(1) %	2 248	2 159

1) Operating and financial information includes Hydro's proportionate share of underlying income (loss), production and sales volumes in equity accounted investments. Realized prices, premiums and exchange rates exclude equity accounted investments.

2) Realized aluminium prices lag the LME price developments by approximately 1.5 - 2 months.

3) Average realized premium above LME for casthouse sales from Primary Metal.

Operational and financial information Qatalum (50%)	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
Revenue (NOK million)	1 256	1 223	3 %	1 226	2 %	4 801	5 502
Underlying EBIT (NOK million)	107	131	(18) %	(105)	>100 %	341	588
Underlying EBITDA (NOK million)	407	416	(2) %	216	88 %	1 528	1 750
Net income (loss) (NOK million)	49	74	(34) %	(167)	>100 %	98	387
Underlying Net income (loss) (NOK million)	49	74	(34) %	(167)	>100 %	98	350
Primary aluminium production (kmt)	77	77	-	77	-	306	305
Casthouse sales (kmt)	80	79	1 %	84	(5) %	310	320

Underlying EBIT for Primary Metal declined somewhat in the fourth quarter. Lower volumes and seasonally higher fixed costs were largely offset by higher realized aluminium prices.

Primary Metal made progress on the "Better Primary Aluminium" improvement program in 2016, however due to a power outage in Årdal, Primary Metal fell slightly short of the target of NOK 400 million for 2016. The delay is not expected to impact the 2019 target of NOK 1 billion.

Compared to the fourth quarter of 2015, underlying EBIT improved, mainly due to higher realized all-in metal prices in addition to lower raw material costs, in particular alumina and carbon costs. Higher fixed costs contributed negatively.

Underlying EBIT for the full year 2016 declined substantially compared to the same period in 2015, due to lower realized all-in metal prices, partly offset by lower raw material costs and positive currency effects.

Metal Markets

Operational and financial information	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	172	131	31 %	141	22 %	629	180
Underlying EBIT (NOK million)	152	117	30 %	152	-	510	379
Currency effects	(6)	(2)	>(100) %	(43)	86 %	-	(43)
Inventory valuation effects	9	3	>100 %	15	(42) %	(13)	(29)
Underlying EBIT excl. currency and inventory valuation effects	149	116	29 %	180	(17) %	523	451
Underlying EBITDA (NOK million)	175	141	25 %	180	(2) %	604	480
Remelt production (kmt)	133	125	6 %	130	3 %	548	533
Metal products sales excluding ingot trading (kmt) ¹⁾	660	720	(8) %	670	(2) %	2 893	2 722
Hereof external sales (kmt)	616	652	(5) %	613	1 %	2 627	2 474

1) Includes external and internal sales from primary casthouse operations, remelters and third party metal sources.

Underlying EBIT for Metal Markets improved in the fourth quarter mainly due to improved results from sourcing and trading activities partly offset by somewhat lower results from remelters.

Compared to the fourth quarter of 2015, underlying EBIT for Metal Markets was stable. Results from remelters declined mainly due to lower contribution margins offset by less negative currency effects.

Underlying EBIT for the full year of 2016 improved substantially compared to 2015, mainly due to substantial losses from sourcing and trading activities in the first half of 2015 as a result of a decline in standard ingot premiums. This was partly offset by lower results from remelters mainly due to lower contribution margins in Europe.

Rolled Products

Operational and financial information	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	91	255	(64) %	(358)	>100 %	953	154
Underlying EBIT (NOK million)	6	211	(97) %	204	(97) %	708	1 142
Underlying EBITDA (NOK million)	222	407	(45) %	404	(45) %	1 507	1 873
Sales volumes to external market (kmt)	213	231	(7) %	229	(7) %	911	948
Sales volumes to external markets (kmt) - Product areas ¹⁾							
Can & foil	79	84	(6) %	80	(1) %	321	331
Lithography & automotive	67	74	(9) %	70	(4) %	298	300
Special products	67	72	(7) %	79	(15) %	292	317
Rolled Products	213	231	(7) %	229	(7) %	911	948

1) As of the first quarter of 2016, the reporting structure for Rolled Products Sales volumes to external markets has been changed. All previous periods presented have been adjusted to present the information on a comparable basis.

Underlying EBIT for Rolled Products was significantly lower compared to the third quarter of 2016 primarily due to seasonally lower volumes, reduced margins, higher maintenance activities and higher costs. In addition, depreciation increased somewhat due to the start-up of the new automotive line in Grevenbroich in the fourth quarter. The USD strengthening against the Euro contributed positively and the Neuss smelter result improved due to an increase in the all-in metal price.

Rolled Products made progress on the "Better Rolled Products" improvement program in 2016, however fell short of the target of NOK 200 million for 2016, mainly related to a delay in the ramp up of the UBC-line. The delay is not expected to impact the 2019 target of NOK 900 million.

Compared to the fourth quarter of 2015 the underlying EBIT declined, mainly due to lower realized net margins and higher costs. For our rolling mills sales volumes were stable when adjusting for the Slim rolling mill divestment²⁾. The Neuss smelter result was higher due to an increase in the all-in metal price.

Underlying EBIT for the year declined compared to 2015. Lower realized margins and higher costs were partly offset by increased sales volumes, when adjusting for the Slim rolling mill divestment. The lower all-in metal price during 2016 negatively affected the Neuss smelter result.

2) Slim rolling mill divestment was completed by December 17, 2015.

Energy

Operational and financial information	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	364	295	23 %	353	3 %	1 343	1 103
Underlying EBIT (NOK million)	359	285	26 %	353	2 %	1 343	1 105
Underlying EBITDA (NOK million)	412	336	23 %	403	2 %	1 553	1 300
Direct production costs (NOK million) ¹⁾	156	164	(4) %	134	17 %	639	610
Power production (GWh)	2 551	2 946	(13) %	2 882	(11) %	11 332	10 894
External power sourcing (GWh)	2 238	2 248	-	2 254	(1) %	8 935	8 918
Internal contract sales (GWh)	3 379	3 377	-	3 531	(4) %	13 435	13 731
External contract sales (GWh)	235	118	99 %	313	(25) %	769	1 093
Net spot sales (GWh)	1 176	1 699	(31) %	1 292	(9) %	6 063	4 989

1) Includes operational costs except for depreciation, maintenance costs, property taxes, concession fees for Hydro as operator and transmission costs

Underlying EBIT for Energy increased compared to the previous quarter mainly due to higher prices, lower area cost and improved contribution from commercial activities, partly offset by lower production. Production costs were reduced by seasonally lower property taxes²⁾, partly offset by higher transmission cost and higher maintenance activity. Area cost declined later in the quarter in line with better transmission capacity and improved hydrology in Mid-Norway.

Compared to the fourth quarter of the previous year underlying EBIT was close to the same level. Higher prices countered the impact from lower production, higher area cost and higher production cost.

Underlying EBIT for 2016 increased compared to the previous year mainly due to higher power prices and net spot sales. The increase in net spot sales is due to production and changes in the contract portfolio.

2) From 2015 property tax is charged to the period it becomes an unconditional payment obligation (in Norway when invoiced). This leads to periodic variations within the year without affecting the annual property tax level.

Other and eliminations

Financial information	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
NOK million							
Earnings before financial items and tax (EBIT)	38	(48)	>100 %	(235)	>100 %	605	(48)
Sapa (50%) ¹⁾	167	157	6 %	70	>100 %	777	454
Other	(130)	(66)	(97) %	(169)	23 %	(458)	(531)
Eliminations	(38)	(17)	>(100) %	17	>(100) %	61	58
Underlying EBIT	(1)	75	>(100) %	(83)	99 %	380	(19)

1) Hydro's share of Sapa's underlying net income.

Other is mainly comprised of head office costs, costs related to holding companies and service centers related to Hydro's operations.

Eliminations are comprised mainly of unrealized gains and losses on inventories purchased from group companies which fluctuate with product flows, volumes and margin developments throughout Hydro's value chain.

Operational and financial information Sapa (50%)	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
Revenue (NOK million) ²⁾	6 105	6 570	(7) %	6 410	(5) %	26 663	27 626
Underlying EBIT (NOK million)	168	244	(31) %	64	>100 %	1 099	704
Underlying EBITDA (NOK million)	327	406	(19) %	245	33 %	1 749	1 364
Net income (loss) (NOK million)	190	172	10 %	17	>100 %	889	123
Underlying net income (loss) (NOK million)	167	157	6 %	70	>100 %	777	454
Sales volumes (kmt)	155	170	(9) %	156	-	682	682

2) Historical revenues have been reclassified.

Underlying EBIT for Sapa decreased compared to the previous quarter, mainly due to seasonally lower demand.

Underlying EBIT for Sapa increased compared to the same quarter of the previous year. The increase in earnings was driven by a higher share of value-added business in line with Sapa's strategy, as well as continuous internal improvements. The fourth quarter of 2015 was also negatively affected by non-operational costs.

Underlying EBIT for 2016 improved compared with 2015 driven by value-added strategy and improved cost position for Extrusion Europe and successful restructuring efforts in Building Systems and Precision Tubing. Results for Extrusion North America were stable despite operational challenges and a softening of certain markets.

Net interest bearing debt at the end of 2016 amounted to roughly NOK 0.1 billion, down from about NOK 1.8 billion at the end of 2015.

Finance

Financial income (expense) NOK million	Fourth quarter 2016	Third quarter 2016	% change prior quarter	Fourth quarter 2015	% change prior year quarter	Year 2016	Year 2015
Interest income	116	93	25 %	89	31 %	468	279
Dividends received and net gain (loss) on securities	20	8	>100%	16	32 %	105	18
Financial income	137	102	35 %	104	31 %	574	297
Interest expense	(121)	(75)	(61)%	(75)	(63)%	(362)	(337)
Capitalized interest	14	30	(54)%	17	(22)%	97	34
Net foreign exchange gain (loss)	(26)	358	>(100)%	48	>(100)%	2 266	(4 397)
Net interest on pension liability	(64)	(45)	(42)%	(106)	40 %	(210)	(215)
Other	(78)	(51)	(54)%	(59)	(33)%	(240)	(215)
Financial expense	(277)	216	>(100)%	(174)	(59)%	1 552	(5 130)
Financial income (expense), net	(140)	317	>(100)%	(70)	(99)%	2 126	(4 834)

The net foreign exchange loss of NOK 26 million reflects weakening of NOK against EUR affecting both embedded derivatives in power contracts and intercompany debt.

For the full year, the net foreign exchange gain was mainly comprised of unrealized currency gain on US dollar debt in Brazil and embedded derivatives in power contracts denominated in Euro. The gain reflects a weakening of USD versus BRL as well as weakening of EUR versus NOK during the year.

Tax

Income tax expense amounted to NOK 815 million for the fourth quarter of 2016. For the full year 2016, tax expense was about 28 percent of income before tax. The tax rate reflects the relatively high share of reported income before tax subject to power sur tax, offset by a reduced tax expense of approximately NOK 600 million related to a favorable decision from the Norwegian Tax Appeal Board in a tax dispute, in April 2016.

Interim financial statements

Condensed consolidated statements of income (unaudited)

NOK million, except per share data	Fourth quarter		Year	
	2016	2015	2016	2015
Revenue	21 250	20 374	81 953	87 694
Share of the profit (loss) in equity accounted investments	236	(144)	985	512
Other income, net	342	(172)	1 030	461
Total revenue and income	21 829	20 057	83 969	88 667
Raw material and energy expense	13 391	12 933	52 151	56 330
Employee benefit expense	2 382	2 309	9 485	9 048
Depreciation, amortization and impairment	1 599	1 403	5 474	5 023
Other expenses	2 493	2 687	9 848	10 008
Total expenses	19 866	19 332	76 958	80 409
Earnings before financial items and tax (EBIT)	1 964	725	7 011	8 258
Financial income	137	104	574	297
Financial expense	(277)	(174)	1 552	(5 130)
Financial income (expense), net	(140)	(70)	2 126	(4 834)
Income (loss) before tax	1 823	655	9 137	3 425
Income taxes	(815)	(113)	(2 551)	(1 092)
Net income (loss)	1 008	541	6 586	2 333
Net income (loss) attributable to non-controlling interests	(51)	63	199	313
Net income (loss) attributable to Hydro shareholders	1 059	478	6 388	2 020
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK)	0.52	0.23	3.13	0.99
Weighted average number of outstanding shares (million)	2 043	2 042	2 042	2 041

1) Basic earnings per share are computed using the weighted average number of ordinary shares outstanding. There were no significant diluting elements.

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

Condensed consolidated statements of comprehensive income (unaudited)

NOK million	Fourth quarter		Year	
	2016	2015	2016	2015
Net income (loss)	1 008	541	6 586	2 333
Other comprehensive income				
Items that will not be reclassified to income statement:				
Remeasurement postemployment benefits, net of tax	1 385	(838)	178	764
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	(41)	126	(41)	126
Total	1 344	(712)	137	890
Items that will be reclassified to income statement:				
Currency translation differences, net of tax	3 669	3 443	4 114	(2 130)
Unrealized gain (loss) on securities, net of tax	(16)	(104)	(47)	15
Cash flow hedges, net of tax	79	(62)	115	72
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	277	193	(281)	502
Total	4 009	3 470	3 901	(1 541)
Other comprehensive income	5 352	2 758	4 038	(651)
Total comprehensive income	6 361	3 300	10 624	1 681
Total comprehensive income attributable to non-controlling interests	332	415	889	(418)
Total comprehensive income attributable to Hydro shareholders	6 029	2 885	9 735	2 099

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

Condensed balance sheets (unaudited)

NOK million, except number of shares	December 31	
	2016	2015
Assets		
Cash and cash equivalents	8 037	6 917
Short-term investments	4 611	5 752
Accounts receivables	10 884	10 797
Inventories	12 381	12 192
Other current assets	457	502
Total current assets	36 371	36 160
Property, plant and equipment	58 734	51 174
Intangible assets	5 811	5 121
Investments accounted for using the equity method	19 807	20 150
Prepaid pension	4 195	3 382
Other non-current assets	5 875	6 557
Total non-current assets	94 422	86 384
Total assets	130 793	122 544
Liabilities and equity		
Bank loans and other interest-bearing short-term debt	3 283	3 562
Trade and other payables	10 108	9 375
Other current liabilities	3 716	4 462
Total current liabilities	17 106	17 399
Long-term debt	3 397	3 969
Provisions	4 384	3 264
Pension liabilities	12 871	12 782
Deferred tax liabilities	2 384	1 999
Other non-current liabilities	3 011	3 801
Total non-current liabilities	26 047	25 816
Total liabilities	43 153	43 215
Equity attributable to Hydro shareholders	81 906	74 169
Non-controlling interests	5 733	5 159
Total equity	87 640	79 329
Total liabilities and equity	130 793	122 544
Total number of outstanding shares (million)	2 043	2 042

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

Condensed consolidated statements of cash flows (unaudited)

NOK million	Fourth quarter		Year	
	2016	2015	2016	2015
Operating activities				
Net income	1 008	541	6 586	2 333
Depreciation, amortization and impairment	1 599	1 403	5 474	5 023
Other adjustments	1 640	2 458	(2 042)	7 017
Net cash provided by operating activities	4 247	4 402	10 018	14 373
Investing activities				
Purchases of property, plant and equipment	(2 562)	(2 103)	(6 913)	(5 254)
Purchases of other long-term investments	(61)	(54)	(183)	(212)
Purchases of short-term investments	(1 600)	(4 000)	(4 650)	(5 050)
Proceeds from long-term investing activities	238	62	1 115	125
Proceeds from sales of short-term investments	1 300	-	5 850	1 000
Net cash used in investing activities	(2 685)	(6 095)	(4 781)	(9 391)
Financing activities				
Loan proceeds	1 377	319	5 208	2 340
Principal repayments	(2 916)	(918)	(7 525)	(7 042)
Net increase (decrease) in other short-term debt	(72)	(239)	265	(344)
Proceeds from shares issued	5	10	28	35
Dividends paid	(117)	(61)	(2 362)	(2 370)
Net cash used in financing activities	(1 723)	(889)	(4 386)	(7 381)
Foreign currency effects on cash and bank overdraft	246	180	269	68
Net increase (decrease) in cash, cash equivalents and bank overdraft	85	(2 402)	1 120	(2 331)
Cash, cash equivalents and bank overdraft at beginning of period	7 952	9 319	6 917	9 248
Cash, cash equivalents and bank overdraft at end of period	8 037	6 917	8 037	6 917

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

Condensed consolidated statements of changes in equity (unaudited)

NOK million	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other components of equity	Equity attributable to Hydro shareholders	Non-controlling interests	Total equity
January 1, 2015	2 272	29 045	(972)	45 872	(2 187)	74 030	5 911	79 941
<i>Changes in equity for 2015</i>								
Treasury shares reissued to employees		24	58			82		82
Dividends				(2 042)		(2 042)	(334)	(2 375)
Total comprehensive income for the period				2 020	80	2 099	(418)	1 681
December 31, 2015	2 272	29 068	(913)	45 850	(2 107)	74 169	5 159	79 329
<i>Changes in equity for 2016</i>								
Treasury shares reissued to employees		1	44			45		45
Dividends				(2 043)		(2 043)	(320)	(2 362)
Capital contribution in subsidiaries							4	4
Items not reclassified to income statement in subsidiaries sold				16	(16)	-		-
Total comprehensive income for the period				6 388	3 348	9 735	889	10 624
December 31, 2016	2 272	29 070	(870)	50 210	1 224	81 906	5 733	87 640

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

Notes to the condensed consolidated financial statements

Note 1: Accounting policies

All reported figures in the financial statements are based on International Financial Reporting Standards (IFRS). Hydro's accounting principles are presented in note 2 Significant accounting policies in Hydro's Financial Statements - 2015.

The interim accounts are presented in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial information should be read in conjunction with Hydro's Financial Statements - 2015 that are a part of Hydro's Annual Report - 2015.

As a result of rounding adjustments, the figures in one or more columns may not add up to the total of that column.

Note 2: Operating segment information

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments. This standard requires Hydro to identify its segments according to the organization and reporting structure used by management. See Hydro's Financial statements - 2015 note 7 Operating and geographic segment information for a description of Hydro's management model and segments, including a description of Hydro's segment measures and accounting principles used for segment reporting. The joint venture Sapa, which is a separate operating segment, has, during 2016 exceeded the quantitative threshold for separate reporting. Sapa delivers products within extrusion profiles, building systems and precision tubing and is present in more than 40 countries. Sapa was previously included in Other and eliminations.

The following tables include information about Hydro's operating segments, including a reconciliation of EBITDA to EBIT for Hydro's operating segments.

NOK million	Fourth quarter		Year	
	2016	2015	2016	2015
Total revenue				
Bauxite & Alumina	5 834	5 542	19 543	21 889
Primary Metal	7 262	7 138	30 862	32 340
Metal Markets	10 117	10 428	43 254	46 909
Rolled Products	5 262	5 592	22 632	24 160
Sapa	-	-	-	-
Energy	2 314	1 481	7 180	5 326
Other and eliminations	(9 539)	(9 808)	(41 517)	(42 931)
Total	21 250	20 374	81 953	87 694
External revenue				
Bauxite & Alumina	3 921	3 513	12 059	13 534
Primary Metal	1 582	1 214	5 529	5 373
Metal Markets	9 440	9 518	39 420	42 795
Rolled Products	5 205	5 625	22 469	24 293
Sapa	-	-	-	-
Energy	1 093	485	2 426	1 623
Other and eliminations	10	19	50	77
Total	21 250	20 374	81 953	87 694
Internal revenue				
Bauxite & Alumina	1 914	2 030	7 484	8 356
Primary Metal	5 680	5 925	25 333	26 967
Metal Markets	677	910	3 834	4 114
Rolled Products	57	(33)	163	(132)
Sapa	-	-	-	-
Energy	1 221	996	4 753	3 703
Other and eliminations	(9 549)	(9 827)	(41 567)	(43 008)
Total	-	-	-	-
Share of the profit (loss) in equity accounted investments				
Bauxite & Alumina	-	-	-	-
Primary Metal	48	(168)	96	389
Metal Markets	-	-	-	-
Rolled Products	-	-	-	-
Sapa	190	17	889	123
Energy	-	-	-	-
Other and eliminations	(1)	6	-	-
Total	236	(144)	985	512

NOK million	Fourth quarter		Year	
	2016	2015	2016	2015
Depreciation, amortization and impairment				
Bauxite & Alumina	833	633	2 279	1 983
Primary Metal	467	475	1 913	1 952
Metal Markets	23	27	94	101
Rolled Products	216	200	799	732
Sapa	-	-	-	-
Energy	53	49	210	195
Other and eliminations	8	18	178	61
Total	1 599	1 403	5 474	5 023
Earnings before financial items and tax (EBIT) ¹⁾				
Bauxite & Alumina	680	513	1 196	2 411
Primary Metal	619	311	2 285	4 459
Metal Markets	172	141	629	180
Rolled Products	91	(358)	953	154
Sapa	190	17	889	123
Energy	364	353	1 343	1 103
Other and eliminations	(151)	(251)	(285)	(170)
Total	1 964	725	7 011	8 258
EBITDA				
Bauxite & Alumina	1 513	1 146	3 475	4 393
Primary Metal	1 086	786	4 199	6 411
Metal Markets	195	168	723	281
Rolled Products	307	(158)	1 752	886
Sapa	190	17	889	123
Energy	416	402	1 553	1 297
Other and eliminations	(143)	(233)	(107)	(109)
Total	3 563	2 128	12 485	13 282
Investments ²⁾				
Bauxite & Alumina	1 629	1 001	3 544	1 923
Primary Metal	1 057	602	3 396	1 839
Metal Markets	58	67	101	280
Rolled Products	661	736	1 615	1 434
Sapa	-	-	-	-
Energy	115	92	318	290
Other and eliminations	22	58	162	99
Total	3 541	2 556	9 137	5 865

1) Total segment EBIT is the same as Hydro group's total EBIT. Financial income and expense are not allocated to the segments. There are no reconciling items between segment EBIT to Hydro EBIT. Therefore, a separate reconciliation table is not presented.

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

NOK million	EBIT	Depr., amor. and impairment ¹⁾	EBITDA
EBIT - EBITDA Fourth quarter 2016			
Bauxite & Alumina	680	833	1 513
Primary Metal	619	467	1 086
Metal Markets	172	23	195
Rolled Products	91	216	307
Sapa	190	-	190
Energy	364	53	416
Other and eliminations	(151)	8	(143)
Total	1 964	1 599	3 563

NOK million	EBIT	Depr., amor. and impairment ¹⁾	EBITDA
EBIT - EBITDA 2016			
Bauxite & Alumina	1 196	2 279	3 475
Primary Metal	2 285	1 914	4 199
Metal Markets	629	94	723
Rolled Products	953	799	1 752
Sapa	889	-	889
Energy	1 343	210	1 553
Other and eliminations	(285)	178	(107)
Total	7 011	5 474	12 485

1) Depreciation, amortization and impairment write-down of tangible and intangible assets, and amortization of excess values in equity accounted investments and impairment loss of such investments.

Note 3: Contingent liabilities

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Hydro is of the opinion that it is not probable that the resulting liabilities, if any, will have a material adverse effect on its consolidated results of operations, liquidity or financial position.

Note 4: Taxes

In April 2016, the Norwegian Tax Appeal Board ruled in favor of Hydro in a tax dispute. Taxes related to losses on refinancing of subsidiaries in 2008 were denied for deduction in 2013 and the tax claim was paid in 2014. Following the decision in the Tax Appeal Board, Hydro recognized approximately NOK 600 million in reduced tax expense and approximately NOK 100 million in interest income in the first quarter of 2016. Hydro received the reimbursement in the second quarter of 2016. The tax authorities have notified Hydro that they will ask for a re-examination of the case by the National Tax Board (Riksskattenemnda).

Alternative performance measures (APMs)

Alternative performance measures, i.e. financial performance measures not within the applicable financial reporting framework, are used by Hydro to provide supplemental information, by excluding items that, in Hydro's view, does not give an indication of the periodic operating results or cash flows of Hydro. Financial APMs are intended to enhance comparability of the results and cash flows from period to period, and it is Hydro's experience that these are frequently used by analysts, investors and other parties. Management also uses these measures internally to drive performance in terms of long-term target setting and as basis for performance related pay. These measures are adjusted IFRS measures defined, calculated and used in a consistent and transparent manner over the years and across the company where relevant. Operational measures such as, but not limited to, volumes, prices per mt, production costs and improvement programs are not defined as financial APMs. To provide a better understanding of the company's underlying financial performance for the relevant period, Hydro focuses on underlying EBIT in the discussions on periodic underlying financial and operating results and liquidity from the business areas and the group, while effects excluded from underlying EBIT and net income (loss) are discussed separately in the section on reported EBIT and net income. Financial APMs should not be considered as a substitute for measures of performance in accordance with the IFRS. Disclosures of APMs are subject to established internal control procedures.

Hydro's financial APMs

- *Underlying EBIT*: EBIT +/- identified items to be excluded from underlying EBIT as described below
- *EBITDA*: EBIT + depreciation, amortization and impairments
- *Underlying EBITDA*: EBITDA +/- identified items to be excluded from underlying EBIT as described below + impairments
- *Underlying net income (loss)*: Net income (loss) +/- items to be excluded from underlying income (loss) as described below
- *Underlying earnings per share*: Underlying net income/loss divided by a weighted average of outstanding shares (ref.: the interim financial statements)
- *Investments*: Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments
- *Adjusted net cash (debt)*: Short- and long-term interest-bearing debt adjusted for Hydro's liquidity positions, and for liquidity positions regarded unavailable for servicing debt, pension obligation and other obligations which are considered debt-like in nature.
- *(Underlying) RoaCE*: (Underlying) RoaCE is defined as (underlying) "Earnings after tax" divided by average "Capital employed". (Underlying) "Earnings after tax" is defined as (underlying) "Earnings before financial items and tax" less "Adjusted income tax expense". Since RoaCE represents the return to the capital providers before dividend and interest payments, adjusted income tax expense excludes the tax effects of items reported as "Financial income (expense), net" and in addition, for underlying figures, the tax effect of items excluded. "Capital Employed" is defined as "Shareholders' Equity", including non-controlling interest plus long-term and short-term interest-bearing debt less "Cash and cash equivalents" and "Short-term investments". Capital Employed can be derived by deducting "Cash and cash equivalents", "Short-term investments" and "Short-term and long-term interest free liabilities" (including deferred tax liabilities) from "Total assets". The two different approaches yield the same value.
- *Metal Markets specific adjustments to underlying EBIT*:
 - *Currency effects* include the effects of changes in currency rates on sales and purchase contracts denominated in foreign currencies (mainly US dollar and Euro for our European operations) and the effects of changes in currency rates on the fair valuation of derivative contracts (including LME futures) and inventories mainly translated into Norwegian kroner. Hydro manages its external currency exposure on a consolidated basis in order to take advantage of offsetting positions.
 - *Inventory valuation effects* comprise hedging gains and losses relating to inventories. Increasing LME prices result in unrealized hedging losses, while the offsetting gains on physical inventories are not recognized until realized. In period of declining prices, unrealized hedging gains are offset by write-downs of physical inventories.

Items excluded from underlying EBIT, EBITDA, net income (loss) and earnings per share

Hydro has defined two categories of items which are excluded from underlying results in all business areas, equity accounted investments and at group level. One category is the timing effects, which are unrealized changes to the market value of certain derivatives and the metal effect in Rolled Products. When realized, effects of changes in the market values since the inception are included in underlying EBIT. Changes in the market value of the trading portfolio are included in underlying results. The other category includes material items which are not regarded as part of underlying business performance for the period, such as major rationalization charges and closure costs, major impairments of property, plant and equipment, effects of disposals of businesses and operating assets, as well as other major effects of a special nature. Materiality is defined as items with a value above NOK 20 million. All items excluded from underlying results are reflecting a reversal of transactions recognized in the financial statements for the current period, except for the metal effect. Part-owned entities have implemented similar adjustments.

Items excluded from underlying EBIT and net income ¹⁾	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Year 2016	Year 2015
NOK million					
Unrealized derivative effects on LME related contracts	(87)	(32)	(5)	(401)	415
Unrealized derivative effects on power and raw material contracts	(20)	(68)	(33)	(61)	(419)
Metal effect, Rolled Products	(68)	(48)	177	(91)	458
Significant rationalization charges and closure costs	-	124	-	192	-
Impairment charges	285	140	-	426	-
(Gains)/losses on divestments	-	-	365	(314)	365
Other effects	(223)	-	285	(223)	285
Items excluded in equity accounted investments	(23)	(15)	53	(113)	294
Items excluded from underlying EBIT	(135)	101	841	(586)	1 398
Net foreign exchange (gain)/loss	26	(358)	(48)	(2 266)	4 397
Calculated income tax effect	68	95	(38)	841	(1 418)
Other adjustments to net income	-	-	-	(700)	-
Items excluded from underlying net income	(40)	(161)	755	(2 712)	4 377
Income (loss) tax rate	45 %	34 %	17 %	28 %	32 %
Underlying income (loss) tax rate	44 %	33 %	10 %	38 %	27 %

1) Negative figures indicate reversal of a gain and positive figures indicate reversal of a loss.

- Unrealized derivative effects on LME related contracts include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, where hedge accounting is not applied. Also includes elimination of changes in fair value of certain internal physical aluminium contracts.
- Unrealized derivative effects on power and raw material contracts include unrealized gains and losses on embedded derivatives in raw material and power contracts for Hydro's own use and for financial power contracts used for hedging purposes, as well as elimination of changes in fair value of embedded derivatives within certain internal power contracts.
- Metal effect in Rolled Products is an effect of timing differences resulting from inventory adjustments due to changing aluminium prices during the production, sales and logistics process, lasting two to three months. As a result, margins are impacted by timing differences resulting from the FIFO inventory valuation method (first in, first out), due to changing aluminium prices during the process. The effect of inventory write-downs is included. Decreasing aluminium prices in Euro results in a negative metal effect on margins, while increasing prices have a positive effect.
- Significant rationalization charges and closure costs include costs related to specifically defined major projects, and not considered to reflect periodic performance in the individual plants or operations. Such costs involve termination benefits, dismantling of installations and buildings, clean-up activities that exceed legal liabilities, etc. Costs related to regular and continuous improvement initiatives are included in underlying results.
- Impairment charges (PP&E and equity accounted investments) relate to significant write-downs of assets or groups of assets to estimated recoverable amounts in the event of an identified loss in value. Gains from reversal of impairment charges are simultaneously excluded from underlying results.

- (Gains) losses on divestments include a net gain or loss on divested businesses and/or individual major assets.
- Other effects include recognition of pension plan amendments and related curtailments and settlements, insurance proceeds covering asset damage, legal settlements, etc. Insurance proceeds covering lost income are included in underlying results.
- Items excluded in equity accounted investments reflects Hydro's share of items excluded from underlying net income in Sapa and Qatalum and are based on Hydro's definitions, including both timing effects and material items not regarded as part of underlying business performance for the period.
- Net foreign exchange (gain) loss: Realized and unrealized gains and losses on foreign currency denominated accounts receivable and payable, funding and deposits, embedded currency derivatives in certain power contracts and forward currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and operating capital.
- Calculated income tax effect: In order to present underlying net income on a basis comparable with our underlying operating performance, the underlying income taxes are adjusted for the expected taxable effects on items excluded from underlying income before tax.
- Other adjustments to net income include other major financial and tax related effects not regarded as part of the underlying business performance of the period.

Items excluded from underlying EBIT per operating segment and for Other and eliminations ¹⁾	Fourth quarter	Third quarter	Fourth quarter	Year	Year
NOK million	2016	2016	2015	2016	2015
Unrealized derivative effects on LME related contracts	-	-	19	-	11
Impairment charges	285	-	-	285	-
Other effects ²⁾	(254)	-	-	(254)	-
Bauxite & Alumina	31	-	19	31	11
Unrealized derivative effects on LME related contracts	(36)	(24)	7	(93)	95
Unrealized derivative effects on power contracts	18	(54)	89	(125)	112
Significant rationalization charges and closure costs	-	124	-	192	-
Insurance compensation (Qatalum)	-	-	-	-	(37)
Primary Metal	(18)	47	96	(27)	169
Unrealized derivative effects on LME related contracts	(20)	(14)	12	(119)	199
Metal Markets	(20)	(14)	12	(119)	199
Unrealized derivative effects on LME related contracts	(16)	4	(49)	(183)	95
Metal effect	(68)	(48)	177	(91)	458
(Gains) losses on divestments	-	-	434	28	434
Rolled Products	(85)	(45)	562	(246)	988
Unrealized derivative effects on power contracts	(4)	(10)	1	-	3
Energy	(4)	(10)	1	-	3
Unrealized derivative effects on power contracts ³⁾	(34)	(4)	(122)	64	(533)
Unrealized derivative effects on LME related contracts ³⁾	(14)	2	6	(6)	15
Impairment charges	-	140	-	140	-
(Gains)/losses on divestments	-	-	(69)	(342)	(69)
Termination of lease contract Vækerø Park	-	-	285	-	285
Other effects ⁴⁾	32	-	-	32	-
Unrealized derivative effects (Sapa)	(41)	(26)	(105)	(166)	95
Significant rationalization charges and closure costs (Sapa)	34	21	125	55	366
Other effects (Sapa)	-	-	-	-	(20)
Net foreign exchange (gain) loss (Sapa)	(25)	(17)	55	(49)	33
Calculated income tax effect (Sapa)	10	7	(23)	48	(142)
Other and eliminations	(39)	123	152	(225)	28
Items excluded from underlying EBIT	(135)	101	841	(586)	1 398

1) Negative figures indicate reversal of a gain and positive figures indicate reversal of a loss.

2) Other effects in Bauxite & Alumina include a compensation relating to the completion of outstanding contractual arrangements with Vale.

3) Unrealized derivative effects on power contracts and LME related contracts result from elimination of changes in the valuation of embedded derivatives within certain internal power contracts and in the valuation of certain internal aluminium contracts.

4) Other effects in Other and eliminations include the re measurement of environmental liabilities, due to changes in interest rate, related to closed business in Germany.

Underlying EBITDA	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
NOK million							
EBITDA	3 563	2 792	28 %	2 128	67 %	12 485	13 282
Items excluded from underlying EBIT	(135)	101	>(100) %	841	>(100) %	(586)	1 398
Reversal of impairments	(285)	(140)	>(100) %	-	-	(426)	-
Underlying EBITDA	3 143	2 753	14 %	2 969	6 %	11 474	14 680

Underlying earnings per share	Fourth quarter 2016	Third quarter 2016	%change prior quarter	Fourth quarter 2015	%change prior year quarter	Year 2016	Year 2015
NOK million							
Net income (loss)	1 008	1 119	(10) %	541	86 %	6 586	2 333
Items excluded from net income (loss)	(40)	(161)	75 %	755	>(100) %	(2 712)	4 377
Underlying net income (loss)	968	958	1 %	1 296	(25) %	3 875	6 709
Underlying net income attributable to non-controlling interests	12	22	(46) %	88	(87) %	129	600
Underlying net income attributable to Hydro shareholders	956	936	2 %	1 209	(21) %	3 746	6 110
Number of shares	2 043	2 043	-	2 042	-	2 042	2 041
Underlying earnings per share	0.47	0.46	3 %	0.59	(21) %	1.83	2.98

Adjusted net cash (debt)	Dec 31 2016	Sep 30 2016	change prior quarter	Dec 31 2015	Sep 30 2015	change prior quarter
NOK million						
Cash and cash equivalents	8 037	7 952	85	6 917	9 372	(2 455)
Short-term investments ¹⁾	4 611	4 438	174	5 752	1 860	3 892
Short-term debt	(3 283)	(3 562)	279	(3 562)	(3 509)	(53)
Long-term debt	(3 397)	(3 409)	12	(3 969)	(4 408)	438
Net cash (debt)	5 969	5 419	550	5 138	3 316	1 822
Cash and cash equiv. and short-term investm. in captive insurance company ²⁾	(1 103)	(1 128)	25	(1 129)	(1 116)	(13)
Net pension obligation at fair value, net of expected income tax benefit ³⁾	(7 338)	(8 597)	1 259	(7 955)	(7 121)	(834)
Operating lease commitments, net of expected income tax benefit ⁴⁾	(507)	(487)	(20)	(1 187)	(1 600)	413
Short- and long-term provisions net of exp. income tax benefit, and other liab. ⁵⁾	(2 619)	(3 279)	660	(3 040)	(2 750)	(290)
Adjusted net cash (debt)	(5 598)	(8 072)	2 474	(8 173)	(9 272)	1 099
Net debt in EAI ⁶⁾	(6 887)	(6 141)	(746)	(8 011)	(8 022)	11
Adjusted net cash (debt) incl. EAI	(12 485)	(14 213)	1 729	(16 184)	(17 294)	1 110

1) Hydro's policy is that the maximum maturity for cash deposits is 12 months. Cash flows relating to bank time deposits with original maturities beyond three months are classified as investing activities and included in short-term investments on the balance sheet.

2) Cash and cash equivalents and short-term investments in Hydro's captive insurance company Industriforsikring AS are assumed to not be available to service or repay future Hydro debt, and are therefore excluded from the measure Adjusted net debt.

3) The expected income tax benefit related to the pension liability is NOK 1,338 million and NOK 1,445 million, respectively, for 2016 and 2015.

4) Operating lease commitments are discounted using a rate of 1.29 percent and 1.33 percent for 2016 and 2015, respectively. The expected tax benefit on operating lease commitments is estimated at 30 percent. The net present value of operating lease commitments is re-calculated once a year in connection with full year reporting.

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

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

Underlying RoaCE

Hydro uses underlying RoaCE to measure the performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views this measure as providing additional understanding of the rate of return on investments over time in each of its capital intensive businesses, and in the operating results of its business segments.

NOK million	Reported		Underlying	
	2016	2015	2016	2015
EBIT	7 011	8 258	6 425	9 656
Adjusted Income tax expense ¹⁾	(1 977)	(2 446)	(2 448)	(2 580)
EBIT after tax	5 034	5 813	3 977	7 076

NOK million	31 December		
	2016	2015	2014
Current assets ²⁾	23 722	23 491	24 888
Property, plant and equipment	58 734	51 174	55 719
Other non-current assets	35 688	35 210	34 627
Current liabilities ³⁾	(13 823)	(13 838)	(13 077)
Non-current liabilities ⁴⁾	(22 651)	(21 847)	(22 088)
Capital Employed	81 670	74 190	80 069

Return on average Capital Employed (RoaCE)	Reported		Underlying	
	2016	2015	2016	2015
Hydro	6.5 %	7.5 %	5.1 %	9.2 %

1) Adjusted Income tax expense is based on reported and underlying tax expense adjusted for tax on financial items.

2) Excluding cash and cash equivalents and short-term investments.

3) Excluding bank loans and other interest-bearing short-term debt.

4) Excluding long-term debt.

Additional information

Financial calendar

March 17	Annual report
April 28	First quarter results
May 3	Annual General Meeting
July 25	Second quarter results
October 25	Third quarter results
November 30	Capital Markets Day

Hydro reserves the right to revise these dates.

Cautionary note

Certain statements included in this announcement contain forward-looking information, including, without limitation, information relating to (a) forecasts, projections and estimates, (b) statements of Hydro management concerning plans, objectives and strategies, such as planned expansions, investments, divestments, curtailments or other projects, (c) targeted production volumes and costs, capacities or rates, start-up costs, cost reductions and profit objectives, (d) various expectations about future developments in Hydro's markets, particularly prices, supply and demand and competition, (e) results of operations, (f) margins, (g) growth rates, (h) risk management, and (i) qualified statements such as "expected", "scheduled", "targeted", "planned", "proposed", "intended" or similar.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, these forward-looking statements are based on a number of assumptions and forecasts that, by their nature, involve risk and uncertainty. Various factors could cause our actual results to differ materially from those projected in a forward-looking statement or affect the extent to which a particular projection is realized. Factors that could cause these differences include, but are not limited to: our continued ability to reposition and restructure our upstream and downstream businesses; changes in availability and cost of energy and raw materials; global supply and demand for aluminium and aluminium products; world economic growth, including rates of inflation and industrial production; changes in the relative value of currencies and the value of commodity contracts; trends in Hydro's key markets and competition; and legislative, regulatory and political factors.

No assurance can be given that such expectations will prove to have been correct. Hydro disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Hydro is a global aluminium company with production, sales and trading activities throughout the value chain, from bauxite, alumina and energy generation to the production of primary aluminium and rolled products as well as recycling. Based in Norway, the company has 13,000 employees involved in activities in more than 40 countries on all continents. Rooted in more than a century of experience in renewable energy production, technology development and progressive partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.

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Infinite aluminium