

BI INTERNATIONAL CASE COMPETITION

CASE – NORSK HYDRO



This case was written for the BI International Case Competition 2016
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Better Bigger Greener

HYDRO – BETTER, BIGGER, GREENER

2014 was a good year for Hydro. Several factors contributed to this: Global aluminium demand exceeded production, resulting in a rise in prices; the weakening Norwegian krone and lower costs enabled Hydro to report its best ever quarterly result in the 4th quarter of 2014 since becoming a pure play aluminium company in 2007. In his letter to the shareholders in the 2014 annual report, the CEO of Hydro, Svein Richard Brandtzæg, summed up the Hydro strategy:

After challenging years, the fundamentals in the aluminium market show some improvement - and our ambitious improvement strategy yields significant results turning Hydro into a strong player well positioned for a better, bigger and greener future.

- Better:** By lowering costs through a lasting result of systematic and determined improvement programs.
- Bigger:** The world is expected to need 45-65 percent more aluminium in 2025 than in 2015. Hydro wants to develop as a company to meet a significant part of such increased demand.
- Greener:** The goal of becoming carbon neutral by 2020 - being the world's first metal and mining company to become carbon neutral from a lifecycle perspective.

In 2015 Hydro celebrated Høyanger aluminium plant's 100th anniversary – and marked the beginning of the next hundred years of turning pure, renewable hydropower into energy in solid state, in the form of aluminium.

This is our challenge to you: How to achieve Hydro's aspiration of higher value creation through becoming better, bigger, greener in the years up to, and including 2020.

A SHORT HISTORY OF HYDRO

The company was formed in 1905, but it all started a few years earlier. The name Hydro comes from the Greek word *hudór* meaning water, and Hydro is built on the energy delivered by hydro-electric power. In 1902 the engineer and entrepreneur Sam Eyde bought the rights to the Rjukan waterfall (he also had to buy a nearby tourist hotel to get the rights). He saw that this rich source of energy would be the basis for a new electro-chemical industry in Norway.

At the same time professor Kristian Birkeland had developed a method for extracting nitrogen compounds from air using a high powered electric cannon. Together they had what was needed to produce fertiliser. With backing from French capital the company was formed in 1905, and production started in Notodden. More capital was needed to develop the Rjukan waterfall and build a production plant in Rjukan. With the aid of German capital, the development of Rjukan started in 1907 and on the 8th of December, 1911 the first trainload of Norwegian saltpetre left Rjukan.

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

The plant at Herøya, located on the fjord, offered new opportunities for utilizing electric power. The possibility of producing aluminium and magnesium was investigated. It was found that producing aluminium would be too costly, but that a profit could be made from producing magnesium. The Second World War was looming, and the demand for light metal for the production of aircraft was enormous. But the occupation of Norway by Germany (1940-1945) put a temporary stop on the development of light metal production.

After the war Germany lost its ownership in Hydro and the Norwegian state acquired a 46% equity. The search for new products was on, and again the production of light metals was of the greatest interest. The company Alnor, owned in part by Hydro, was established, and in 1963 they built a production plant for aluminium at Karmøy on the Norwegian west coast. This was the first step on the way to becoming an aluminium giant.

The Norwegian oil adventure started in the early 1960's and together with the French Petronord group and Phillips Petroleum, Hydro became an oil and gas operator in 1969.

Through the 80's Hydro expanded in three areas: fertiliser, aluminium, and oil and gas. It became one of Norway's largest companies.

The first decade of the new millennium saw a restructuring of the company. In 2004 Hydro demerged their fertiliser business through the creation of Yara. In 2007 Hydro merged their petroleum activities with Statoil, forming StatoilHydro, now called Statoil.

Hydro is now a fully integrated aluminium company with attractive equity positions in the entire value chain of aluminium production, from bauxite, alumina and power production - the most important raw materials in the production of primary metal – to primary metal production, rolling, extruding and recycling. Hydro is one of the world's largest producers and suppliers of alumina and primary and recycled aluminium.

Why Aluminium

Hydro is a fully integrated producer of aluminium – from mining of bauxite to smelting of primary metal, extrusion, rolling and recycling. The demand for aluminium is ever increasing because of the qualities of aluminium:

Aluminium is strong and light with a specific weight only a third of that of steel, making it ideal for use in the transportation industry.

Aluminium is highly corrosion resistant. This property prolongs the useful life of aluminium in cars and buildings and reduces the need for maintenance, reducing the environmental impact related to maintenance.

Aluminium is a good conductor of electricity and heat, in relation to weight almost twice as good as copper.

Aluminium has good reflective qualities, and combined with its low weight, makes it ideal for use in reflectors.

Aluminium is easy to shape and process. It is ductile, and has a low melting point. It can easily be processed in a number of ways, both in hot and cold conditions.

Aluminium is impermeable, non-toxic and odourless. Aluminium foil, rolled to a 0.005 mm thickness, is still completely impermeable and lets neither light, aroma nor taste substances in or out. This makes it ideal for food and drink packaging. Its low weight also reduces energy in transportation.

Aluminium is non-combustible, making it a safe material for use in buildings.

Aluminium is an abundant resource. Aluminium is the third most abundant element in the earth's crust, constituting about 8%, by weight, of the earth's crust.

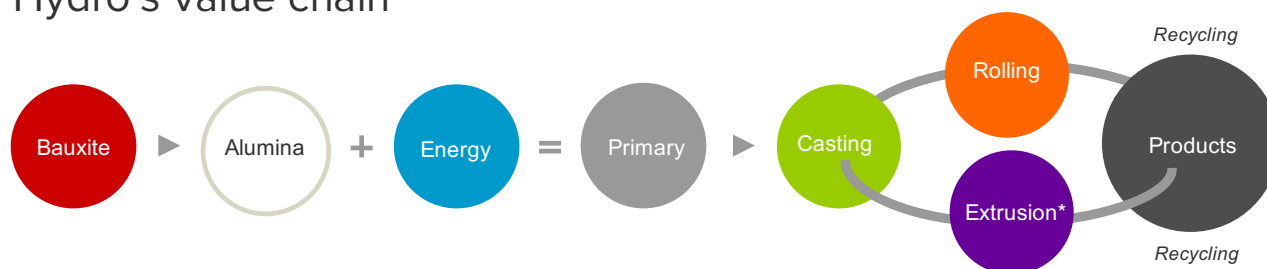
Aluminium is easy to recycle. Re-melting of aluminium requires little energy, the total loss in the re-melting process is less than three percent. Only five percent of the energy required to produce the primary metal initially is needed in the recycling process. Around 75% of all aluminium ever produced is still in use, and this constitutes a resource bank for use in the future.

HYDRO TODAY. A DESCRIPTION OF HYDRO'S VALUE CHAIN AND OPERATING SEGMENTS.

Hydro is a fully integrated aluminium company, meaning that they have a presence throughout the value chain from bauxite mining, alumina refining and energy production (upstream), through the production and recycling of primary aluminium (midstream) and to aluminium products (downstream).

The value chain is as follows: Bauxite is mined and then refined into Alumina. Alumina is then smelted into Aluminium (primary metal). Aluminium is also derived from remelting and recycling aluminium scrap. Scrap is generated both in the production (pre-consumed) and use (post consumed) of aluminium products. Recycling of scrap requires about 5 percent of the amount of energy that is needed for electrolysis. The aluminium is then cast into semi fabricated aluminium products which are then sold B2B and used in the production of aluminium components or products.

Hydro's value chain



*Hydro produces extrusion profiles through the 50/50 joint venture Sapa

Bauxite

Hydro owns the Brazilian Paragominas mine, located in the state of Pará. The mine has a nominal production capacity amounting to 9.9 million metric tons, 12-percent moisture bauxite on an annual basis, which represents about 4 percent of global capacity. Operations include a mining fleet of about 170 vehicles and 1355 employees. Bauxite from Paragominas is mined in open pits and sorted and crushed into sizes suitable for transportation as slurry through the world's longest slurry pipeline, approximately 240 kilometers to Alunorte for refining into alumina. Bauxite is also acquired through a part ownership in Mineração Rio do Norte (MRN) bauxite mine located in western Pará. Hydro currently has a 5% ownership stake in MRN (but taking 45% of production). In October 2015, Hydro signed a Letter of Intent (LoI) with Brazilian mining company Vale for the possible acquisition of Vale's 40% interest in MRN, which would strengthen Hydro's global position as a long player in bauxite and alumina.

Hydro's bauxite resources are primarily consumed internally through the Alunorte refinery, but a significant amount is also sold to third parties.

Alumina

Most of Hydro's bauxite is refined into alumina at the Alunorte refinery. Alunorte has an annual capacity of approximately 6.3 million mt of alumina. The refinery is competitive due to the high quality

of its alumina, advantages in scale and technology, relatively low energy consumption and labor costs.

Hydro's alumina resources are primarily consumed internally through the fully and part owned smelters, but a significant amount is also sold to third parties.

Energy

A large amount of electricity is needed to produce aluminium metal. The aluminium electrolytic process is highly energy intensive, requiring about 13.5 kwh per kilo aluminium produced in modern production lines. Energy accounts for roughly a third of the cost of production of aluminium. Therefore, an important factor is long-term supplies of energy at affordable prices.

Hydro is Norway's second largest producer of hydroelectric power. Their production of hydropower is concentrated in four main regions in Norway: Telemark, Røldal-Suldal, Sogn and Vennesla. Ever since Hydro started producing aluminium in 1963, hydropower has been a critical part of the process. Basically hydropower was the reason why aluminium production could start up at all. Hydroelectric power is environmentally friendly and completely free of emissions and waste products. Water is a renewable resource in its eternal cycle through precipitation, reservoir, power plant and evaporation.

When aluminium is produced with hydropower, the CO₂ emissions per tonne of aluminium are only one-fifth of those from a smelter operated with electricity from coal power plants, as is common for example in China.

Primary metal

Hydro is one of the leading suppliers of primary aluminium in the shape of extrusion ingots, sheet ingots, foundry alloys and high-purity aluminium, with a global production network. They supply the market with over 2 million tonnes of casthouse products annually.

Approx. half of this production takes place at Hydros fully owned smelters at the following locations in Norway and Germany (see illustration on the next page)

- Sunndalsoera, Norway
- Aardal, Norway
- Hoeyanger, Norway
- Husnes, Norway
- Karmoey, Norway
- Neuss, Germany

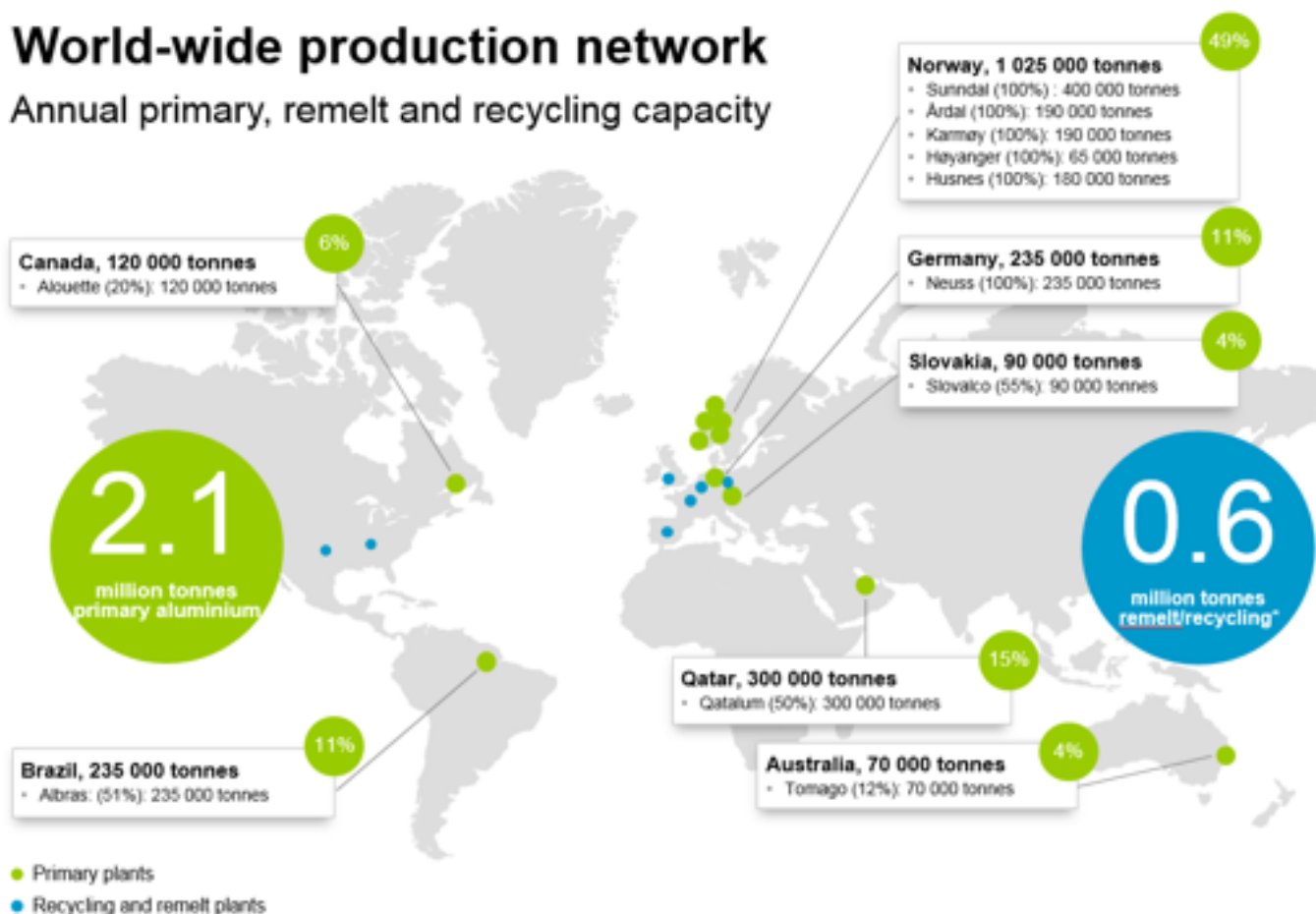
The remaining share is Hydro's equity share or offtake from joint ventures at the following locations world wide:

- Qatalum, Qatar
- Albras, Brazil
- Slovalco, Slovakia
- Alouette, Canada
- Tomago, Australia

In addition to the current production facilities, Hydro is planning the construction of a technology pilot at Karmøy in Norway. The pilot will be a full scale test of the world's most energy efficient aluminium production, and is planned to have a capacity of 70,000 tonnes per year. Production is planned to commence in 2017.

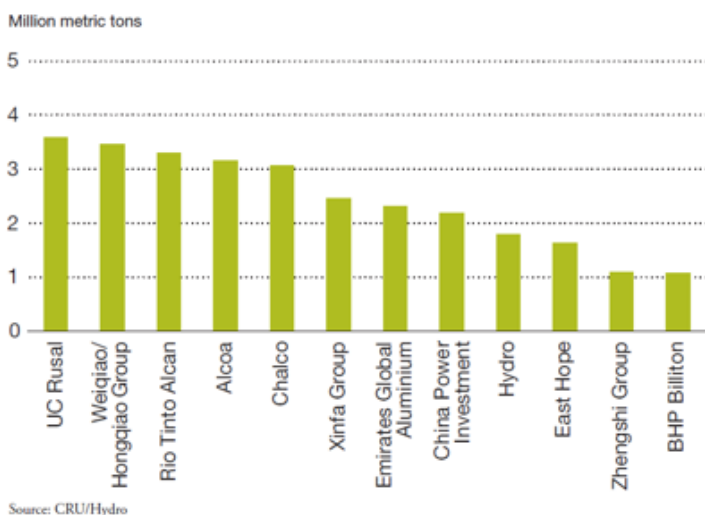
World-wide production network

Annual primary, remelt and recycling capacity



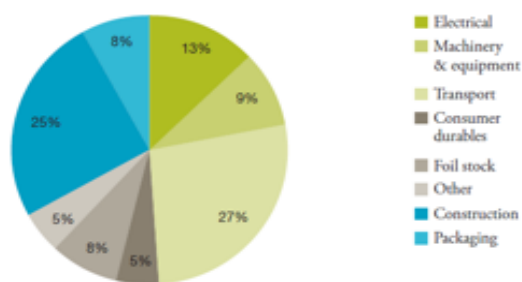
*Only remelt and recycling from dedicated plants in this figure. The smelters have an additional remelt capacity: 0.5 million tonnes.

Top world primary aluminium producers in 2014



Global aluminium consumption* by end use 2014

Total market 74.9 million mt



* Consists of semi fabricated products (included recycled aluminium)
Source: CRU LT 2014/Hydro

Rolled products

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

Hydro's rolled products operations are located in Germany, Norway and Italy. Approximately 75 percent of total sales in 2014 were generated in Europe. More than half of Hydro's rolled production came from the Grevenbroich/AluNorf rolling system in Germany, one of the most modern and efficient rolling operations in the world. Grevenbroich is the centre of packaging, lithographic and automotive sheet operations.

Hydro is the second-largest supplier of aluminium sheet and coil to the European automotive market for interior and exterior vehicle body parts, chassis and component applications. Key customers include Audi, BMW, Daimler and PSA.

Extruded products - The Sapa Group

Extrusion logs, 4 – 7 in length and from 15 to 30 cm in diameter, are the basis for extrusion. Products used in buildings and construction are most commonly extruded.

Hydro is present in the extrusion market through its ownership in the world's largest extrusion company SAPA. Sapa AS was established on 1st September 2013. This is a 50/50 joint venture owned by the Norwegian companies Orkla Group and Norsk Hydro. Sapa's head office is in Oslo. It is now the largest aluminium extrusion-based solutions company in the world with 100 production sites in more than 40 countries. Sapa's move towards a circular economy involves an emphasis on recycling aluminium.

Recycling of aluminium

Aluminium metal is sourced from primary aluminium and from recycled aluminium. Recycling is critical for sustainable development; it allows resources to be saved and waste to be reduced. Aluminium in use is an energy - and resource bank; around 75 percent of aluminium ever produced is still in productive use. However due to the long life of many aluminium products, and due to growing demand, this "bank" cannot supply current demand.

Used aluminium is valuable since it can be easily and endlessly recycled without quality loss. Aluminium recycling even benefits present and future generations by conserving energy and other natural resources. In addition to the energy savings, emissions of greenhouse gases and pollutants are reduced, and encroachments in the landscape related to bauxite mining and refining are avoided. Today, recycling of post-consumer aluminium products saves over 90 million metric tons of CO₂ and over 100,000 GWh of electrical energy annually compared to primary production of the metal.

Most of the aluminium being produced today enters long-life products in the transportation – and

building sector. Even though 92-98% of the aluminium from these products in Europe are recycled, the average lifetimes of between 15-50 years leads to that most of the aluminium will not be available for recycling for many years. As a result, access to aluminium scrap is limited, and globally, only 25 percent of aluminium produced comes from post-consumer scrap sources.

At the end of their useful life, the recycled product may be the same as the original product, but is more often a completely different product. Authorities in many countries have implemented incentives to enhance the recycling rate, including deposit systems, voluntary prepaid recycling charges or advertising. In Europe, the collection rate of used rigid - and semi-rigid containers is on average 70 percent. However, some authorities and environmental organizations have encouraged recycling of materials through “green labels” on products with a high recycled content. For aluminium such incentives may lead to inefficient solutions in economic and ecological terms, and to discrimination of aluminium versus other materials. This also results in inefficiency in the global scrap market and related logistics, thus wasting transportation energy.

The recycling industry plays an essential part of the aluminium life cycle. Recyclers have implemented newer and better technologies to avoid harmful emissions from the smelting of scrap. The amount of recycled metal, through either refining or remelting, has increased steadily in recent decades in both Europe and North America. In addition, followed by the oil price shocks and energy cost increases of the 1970s, Japan ceased domestic primary aluminium production and switched to aluminium recycling in the 1980s. Furthermore, increasing recycling activities are evident in China, India and Russia.

Hydro has seven remelter-facilities worldwide, and remelts process scrap from other companies and from its own production. Hydro’s ambition is to grow faster than the market in recycling, and take a leading position also in this part of its value chain. By 2020, Hydro aims to recover 1 million metric tons of contaminated and post-consumer scrap annually. One of Hydro’s goals is to develop recycling plants that serve internal and external customers with metal products produced from industrial and end-of-life scrap.

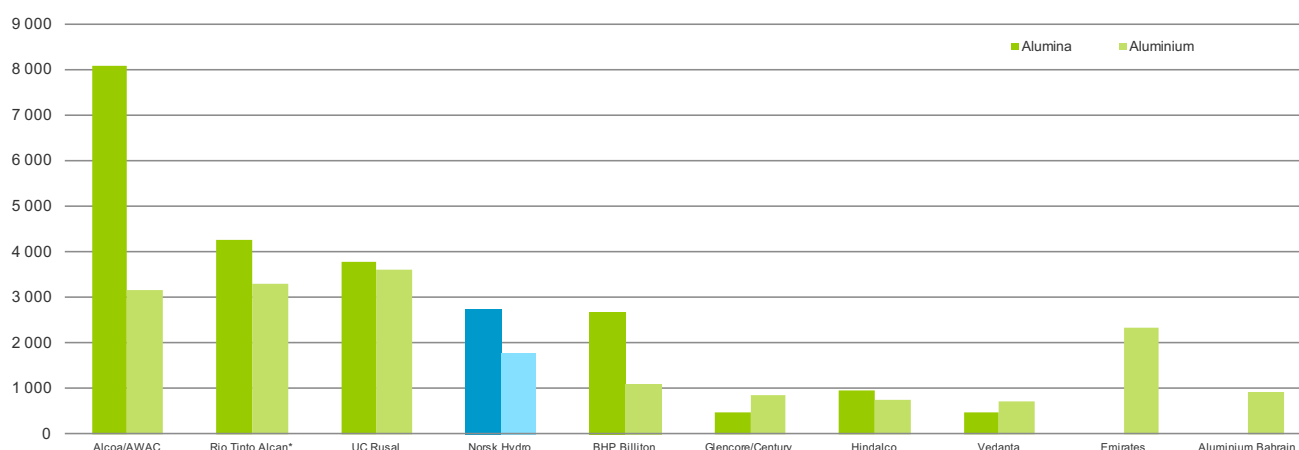
THE MARKET AND COMPETITION

Structural developments

As a result of industry consolidation, relatively few companies are producing a substantial portion of primary metal on a global basis. Hydro increased its capacity by 33 percent in 2011, with the full ramp up of Qatalum in Qatar and the integration of the Albras smelter in Brazil. Following the merger of Dubai Aluminium and Emirates Aluminium in 2014, Hydro became the fifth largest western producer. After the start up of the Maaden smelter in Saudi Arabia, there are no new greenfield smelter projects under implementation outside of China. There are now four large operators in China, which are presently focusing on supplying the Chinese market and several smaller producers that exhibit strong growth ambitions.

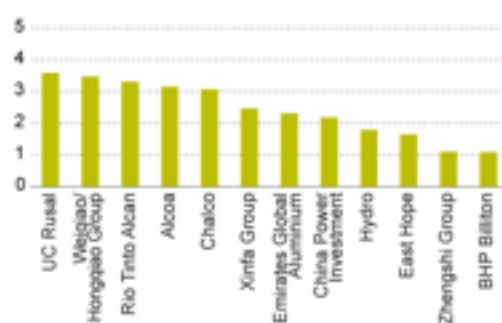
Hydro – a first tier aluminium company

Equity production in 2014 in aluminium equivalents ex-China, thousand mt



Top world primary aluminium producers in 2014

Million metric tons



Source: CRU/Hydro

Sales in the value chain

Hydro has production and sales throughout the value chain, meaning that despite being a fully integrated company with a large part of production being moved downstream internally, external sales are also being executed throughout. This means that upstream Hydro sells bauxite and alumina to competitors in addition to internal refining and smelting, and midstream value added primary metal (i.e. alloyed aluminium semis) are sold to manufacturers of aluminium products in addition to internal consumption and joint ventures sales (SAPA).

Sales throughout the value chain will be strongly influenced by the aluminium price, meaning the London Metal Exchange (LME) price of standard metal (i.e. non-alloyed, 99,7 percent pure primary aluminium), which is considered and traded as a commodity. Bauxite and alumina will normally be traded based on a combination of LME and relevant indexes, while metal products will be sold based on LME plus a negotiated premium.

Aluminium price developments

Primary aluminium is traded on various metal exchanges, primarily the London Metal Exchange (LME). The Shanghai Futures Exchange (SHFE) has grown in importance for international trade of standard ingots with China. However, China has followed a policy of promoting a balanced internal market for primary aluminium including incentives to discourage the export of primary metal. At the same time, China has encouraged the export of higher value added fabricated and semi-fabricated products.

LME aluminium prices are heavily influenced by macro economic and market developments. During the financial crisis of 2008/2009, prices exhibited a historic decline as turmoil in the financial markets spread into the general economy. Prices were volatile but improved continuously until the first half of 2011, before falling to around USD 2000 at the end of the year.

Over the last quarters commodity prices including oil have been negatively impacted by weak macro development in China and general over supply. Aluminium prices have also been trading lower, currently at ~1500 USD/t. However, a weakening of the NOK versus the USD over the same time has mitigated the financial consequences to Hydro.

LME prices have also been considerably influenced by developments in production capacity and inventories over the last several years. Reported inventories increased significantly in the previous downturn, more than doubling from under 3 million mt to over 7 million mt, representing about 2 months of global consumption. Inventories have remained at around this level with a large portion of the metal owned by financial investors, taking advantage of low interest rates, warehouse incentives and contango in the forward aluminium markets.

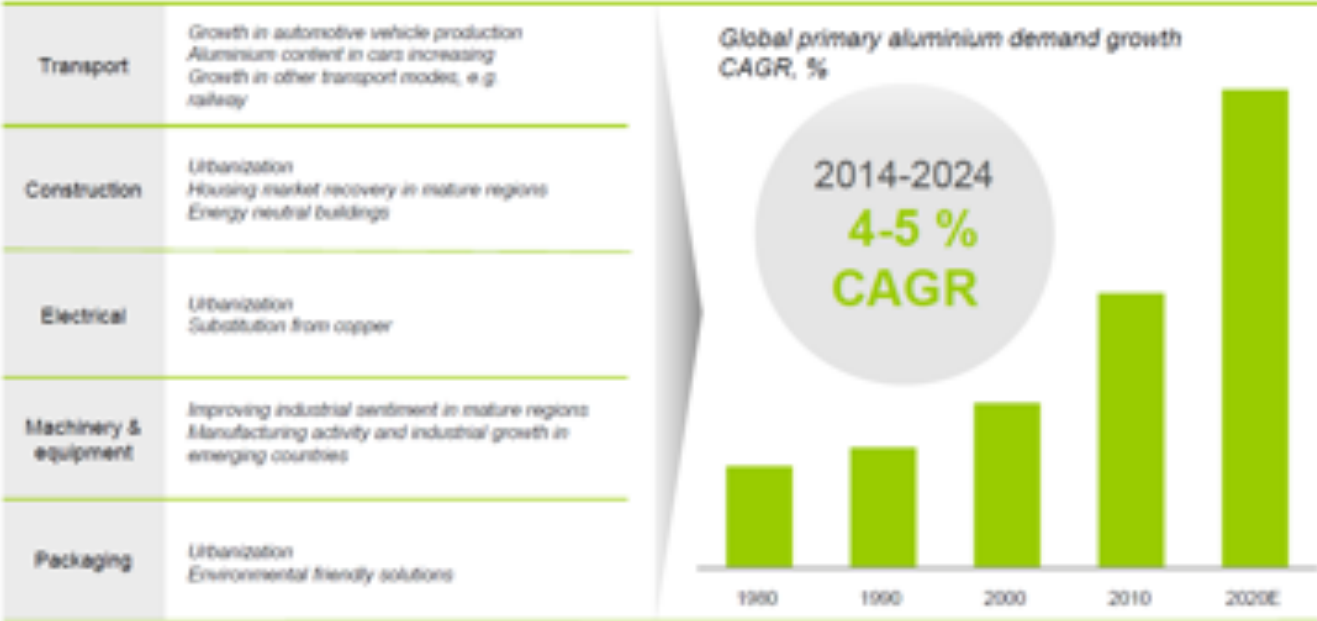
Lower all-in ingot prices



- 3-month LME price traded between 1 511 and 1731 USD/mt during Q3
- | Primary aluminium LME* | USD/mt | NOK/mt |
|------------------------|--------|--------|
| Q3 2015 average | 1 621 | 13 309 |
| Q3 2015 end | 1 573 | 13 392 |
| Q2 2015 average | 1 787 | 13 831 |
| Q2 2015 end | 1 689 | 13 272 |
- US Mid-West and EU duty-paid premium softening to currently 160 and 135 USD/mt respectively
 - Japan premium in Q3 at 95 USD/mt, negotiations for Q4 reported at 90 USD/m

Aluminium demand accelerating in response to global needs

Strong demand drivers in key aluminium segments



Bauxite and alumina price developments

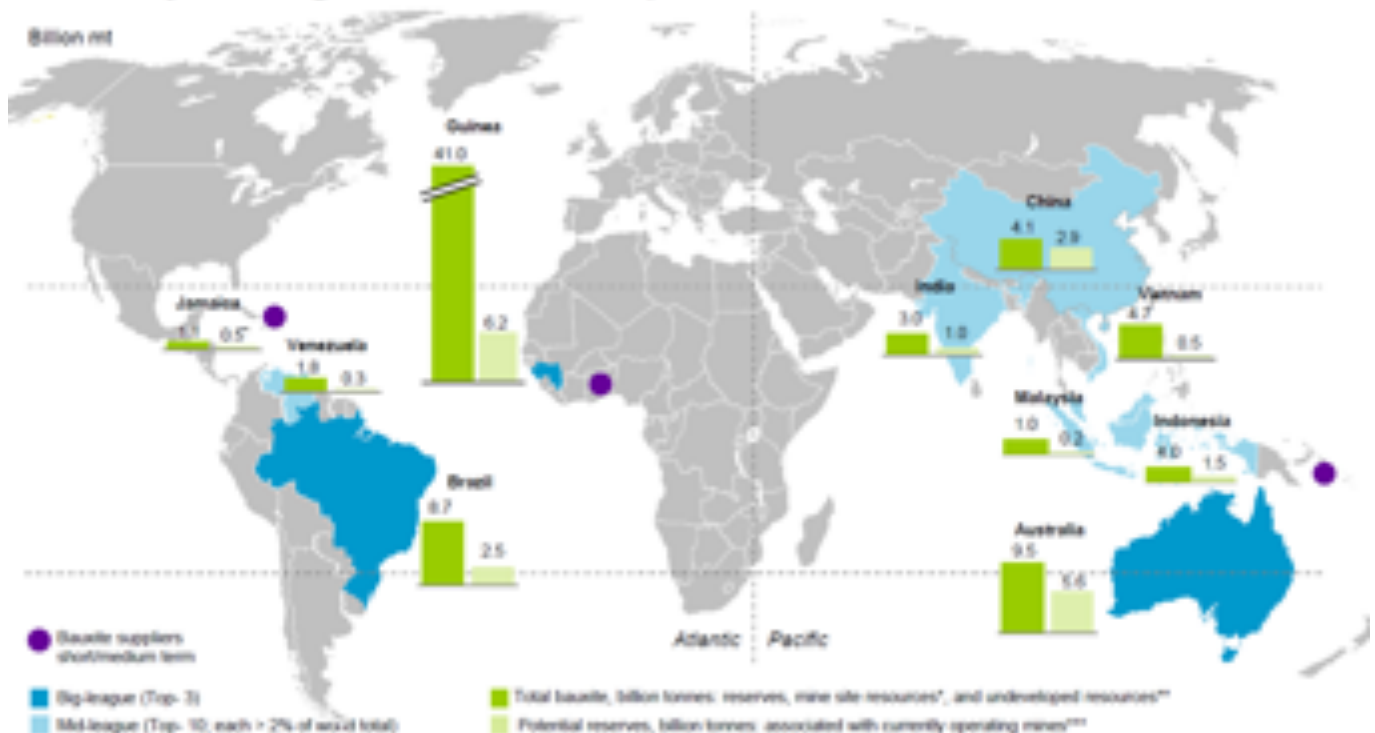
Alumina prices, as a percentage of LME have been increasing. Since 1990, average annual contract prices have risen from a level of around 12 percent of LME reference prices to above 17 percent in 2014. Over the last quarters the alumina price has however fallen to a larger extent than LME prices due to short term oversupply. The alumina price is currently trading at ~14 percent of the LME price.

The Platts alumina price index was introduced in 2010 and reflects the fundamental supply and demand balance of the alumina market. The index has gained support in the industry and currently represents the main reference for short and medium term contracts. Contract volume based on index prices is increasing and this trend is expected to continue.

Bauxite and alumina prices have been strongly influenced by developments in China, which is heavily dependent on imported bauxite. China's bauxite imports declined 49 percent in 2014 following an increase of 79 percent in the previous year, influenced by an announced ban on imports from Indonesia which came into effect in January 2014. Following the ban, Australia has become the largest supplier of bauxite to China while Malaysia has emerged as a more significant short term bauxite source, exporting close to 25 million tonnes to China in 2015. Australia and India are also exporting large volumes to China.

Large and concentrated bauxite resources

But many challenges for future developments



Alumina market is consolidating

Net long equity alumina position based on 2014 production, million tonnes



Alumina prices down on weaker market balance

Cost curve lowered by fuel and currency

Platts alumina index (PAX)



- Average Q3 price 292 USD/mt
 - Down 45 USD/mt compared to Q2
 - Currently trading at ~260 USD/mt
- Alumina price as percentage of LME at 18.1% in Q3
 - Down from 18.8% in Q2

Currency

Hydro is listed on the Oslo Stock Exchange in Norway, and as such reports its financial results in NOK. However, sales are primarily done in USD. A large part of costs will be incurred in the actual country of operations, be it Norway, Brazil, Germany etc.

Financial position

Hydro has always put high priority on its financial position. A clear target is to maintain a solid investment grade rating. Thereby Hydro has limited amounts of debt. As the industry is highly cyclical and the profitability has been under pressure for many years, Hydro's financial strength has become one of the company's competitive advantages. Beyond producing competitively, the financial strength has been an important way of hedging the volatility and the periods of challenging profitability.

THE ENVIRONMENT ISSUE AND THE ROAD AHEAD

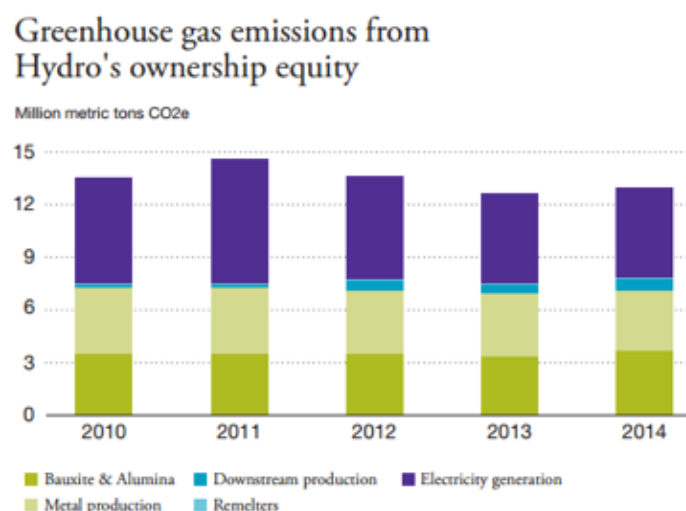
Alumina refining and electrolysis of primary aluminium are energy and greenhouse gas (GHG) emissions intensive. On the other hand, aluminium can save significant amounts of energy, climate change energy and GHG emissions in the use phase. Lighter cars result in fuel savings and lower emissions on the road. Aluminium façades can lead to lower operating costs and enable buildings to produce as much energy as they consume during operation. Products and packaging in aluminium reduce transport costs and emissions. Aluminium packaging also provides excellent barrier properties which helps to conserve food more effectively reducing the need for cooling and reducing food spoilage. Aluminium can also be indefinitely recycled without degradation in quality, and requires 95 percent less energy than primary aluminium production.

Hydro's long term ambition is to be climate neutral by 2020 through reducing direct and indirect emissions, increasing the share of recycled metal in production and delivering more aluminium to markets and products which contribute to CO₂ savings.

Hydro's climate strategy is an integral part of their overall business strategy, including reducing the environmental impact of their operations as well as taking advantage of business opportunities by enabling their customers to do the same.

Hydro's strategic goals for the period 2018 -2020 are as follows:

- Become carbon neutral by 2020
- Recycling of 250,000 mt post-consumed scrap and increase the share of recycled metal in production
- New mining areas equal reforested areas by 2020. The long-term aspiration is No Net Loss
- Best Available Technology for treating, storage and use of bauxite residue
- 60 percent reduction in land-filled waste (excluding tailings, boiler ash and bauxite residue) compared to a 2010 baseline
- Increase water efficiency by 15 percent in water scarce areas, compared with a 2010 baseline



CONCLUSION

Hydro is a fully integrated aluminium company, a leading worldwide supplier of all the products in the aluminium value chain. They have come a long way since 1905, from producing fertilizer, energy and oil to the aluminium company of today.

Hydro is an open company. All the information used in the preparation of this case is from open sources, most of it from Hydro itself. The gateway to all this information is through hydro.com. Please note that Hydro will release its Q4 results on Wednesday 17 and you are not expected to take this new information into account.

Your challenge is as follows: Identify concrete strategic choices and solutions, with thorough supporting analysis and arguments, that you believe will enable Hydro's aspiration of achieving value growth through better, bigger, greener.

Your horizon should be the period up to and including 2020. Acquisitions ***should not*** be part of your solution.

Good luck!

Svein Lund

BI Norwegian Business School

Consolidated financial statements

Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended December 31	Notes	2014	2013
Revenue	8	77 907	64 877
Share of the profit (loss) in equity accounted investments	8, 29, 30	415	(240)
Other income, net	13	751	801
Total revenue and income		79 073	65 438
Raw material and energy expense	14	51 480	43 175
Employee benefit expense	15	8 089	7 360
Depreciation and amortization expense	16	4 565	4 544
Impairment of non-current assets	17	206	100
Other	18, 19	9 059	8 596
Total expenses		73 399	63 775
Earnings before financial items and tax	8	5 674	1 663
Financial income	20	347	402
Financial expense	20	(3 900)	(2 978)
Financial income (expense), net		(3 554)	(2 576)
Income from continuing operations before tax		2 121	(913)
Income taxes	21	(892)	(115)
Income (loss) from continuing operations		1 228	(1 029)
Income (loss) from discontinued operations	7	-	189
Net income (loss)		1 228	(839)
Net income (loss) attributable to minority interests		432	81
Net income (loss) attributable to Hydro shareholders		797	(920)
Basic and diluted earnings (loss) per share from continuing operations	38	0.39	(0.54)
Basic and diluted earnings (loss) per share from discontinued operations	38	-	0.09
Basic and diluted earnings (loss) per share attributable to Hydro shareholders	38	0.39	(0.45)

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	2014	2013
Net income (loss)		1 228	(839)
Other comprehensive income			
Items that will not be reclassified to income statement			
Remeasurement postemployment benefits, net of tax	38	(2 340)	(267)
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	38	(150)	54
Total		(2 490)	(213)
Items that will be reclassified to income statement			
Currency translation differences, net of tax	38	7 004	2 753
Unrealized gain (loss) on securities, net of tax	38	90	(38)
Cash flow hedges, net of tax	38	9	(291)
Share of other comprehensive income that will be recycled to income statement in equity accounted investments, net of tax	38	666	388
Total		7 769	2 811
Other comprehensive income		5 279	2 598
Total comprehensive income		6 507	1 759
Total comprehensive income attributable to minority interests		959	(55)
Total comprehensive income attributable to Hydro shareholders		5 548	1 814

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

Consolidated balance sheets

Amounts in NOK million, December 31	Notes	2014	2013	2012
Assets				
Cash and cash equivalents		9 253	8 412	7 034
Short-term investments	22	1 786	2 480	4 343
Accounts receivable	23	11 703	9 539	8 640
Inventories	24	12 642	10 070	9 812
Other current financial assets	43	543	181	336
Total current assets		35 927	30 681	30 165
Assets held for sale	7	-	-	9 564
Property, plant and equipment	26	55 719	52 855	54 204
Intangible assets	27, 28	5 947	5 562	5 721
Investments accounted for using the equity method	29, 30	18 095	17 148	9 211
Other non-current assets	25, 43	6 227	5 783	5 892
Prepaid pension	36	2 881	3 595	3 080
Deferred tax assets	37	1 476	700	505
Total non-current assets		90 345	85 642	78 613
Total assets	8	126 273	116 324	118 342
Liabilities and equity				
Bank loans and other interest-bearing short-term debt	31	6 039	6 220	5 987
Trade and other payables	32	9 663	9 197	8 238
Provisions	34	1 125	999	852
Taxes payable		1 884	1 959	1 921
Other current financial liabilities	43	406	475	466
Total current liabilities		19 116	18 850	17 464
Liabilities in disposal groups	7	-	-	3 445
Long-term debt	33	5 128	3 986	3 674
Provisions	34	3 993	2 684	2 469
Pension liabilities	36	12 796	9 858	8 619
Other non-current financial liabilities	43	2 780	2 075	2 107
Other liabilities		842	753	991
Deferred tax liabilities	37	1 676	2 853	4 075
Total non-current liabilities		27 215	22 209	21 935
Total liabilities		46 332	41 060	42 844
Share capital	38	2 272	2 272	2 272
Additional paid-in capital	38	29 045	29 049	29 056
Treasury shares	38	(972)	(1 006)	(1 047)
Retained earnings		45 872	46 617	49 018
Other components of equity	38	(2 187)	(6 950)	(9 635)
Equity attributable to Hydro shareholders		74 030	69 981	69 663
Minority interests		5 911	5 283	5 835
Total equity		79 941	75 264	75 498
Total liabilities and equity		126 273	116 324	118 342

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	2014	2013
Operating activities			
Net income (loss)		1 228	(839)
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (income) from discontinued operations	7	-	(189)
Depreciation, amortization and impairment	8, 16, 17	4 771	4 644
Share of (profit) loss in equity accounted investments	8, 29, 30	(415)	240
Dividends received from equity accounted investments	29, 30	942	206
Deferred taxes		(713)	(1 314)
Gain on sale of non-current assets		(44)	(12)
Net foreign exchange loss	20	3 161	2 246
Net sales (purchases) of trading securities		(33)	340
Capitalized interest	20	(3)	(2)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		(561)	458
Inventories		(1 451)	17
Trade and other payables		(184)	174
Commodity derivatives		(313)	79
Other items		(420)	(846)
Net cash provided by continuing operating activities	45	5 965	5 202
Investing activities			
Purchases of property, plant and equipment		(3 294)	(2 867)
Purchases of other long-term investments	45	166	(185)
Purchases of short-term investments		(1 500)	(1 250)
Proceeds from sales of property, plant and equipment		113	64
Proceeds from sales of other long-term investments		(10)	280
Proceeds from sales of short-term investments		2 250	3 050
Net cash used in continuing investing activities		(2 275)	(908)
Financing activities			
Loan proceeds		6 880	6 744
Principal repayments		(8 226)	(7 255)
Net increase (decrease) in other short-term debt		170	(241)
Proceeds from shares issued		21	56
Dividends paid		(1 943)	(1 975)
Net cash used in continuing financing activities		(3 098)	(2 671)
Foreign currency effects on cash and bank overdraft		387	183
Net cash used in discontinued operations	7	(139)	(431)
Net increase in cash, cash equivalents and bank overdraft		840	1 375
Cash, cash equivalents and bank overdraft at beginning of year		8 408	7 033
Cash, cash equivalents and bank overdraft at end of year	45	9 248	8 408

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, 2012		2 272	29 056	(1 047)	49 018	(9 635)	69 663	5 835	75 498
Treasury shares reissued to employees	38		(7)	41			33		33
Dividends	40				(1 529)		(1 529)	(528)	(2 057)
Capital contribution in subsidiaries								33	33
Items not reclassified to income statement in subsidiaries sold					49	(49)	-		-
Minority interests in subsidiaries sold								(1)	(1)
Total comprehensive income for the year					(920)	2 734	1 814	(55)	1 759
December 31, 2013		2 272	29 049	(1 006)	46 617	(6 950)	69 981	5 283	75 264
Treasury shares reissued to employees	38		(4)	35			31		31
Dividends	40				(1 530)		(1 530)	(331)	(1 861)
Items not reclassified to income statement in subsidiaries sold					(12)	12	-		-
Total comprehensive income for the year					797	4 751	5 548	959	6 507
December 31, 2014		2 272	29 045	(972)	45 872	(2 187)	74 030	5 911	79 941

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

Oslo, March 10, 2015

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